103

UNITED STATES EXPORT–IMPORT BANK

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United States Export-Import Bank, S...

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT, FINANCE, TRADE AND MONETARY POLICY

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

NOVEMBER 3, 1993

Printed for the use of the Committee on Banking, Finance and Urban Affairs

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CONTENTS

	Page
Hearing held on:	
November 3, 1993	1
Appendix	31

WITNESSES

WEDNESDAY, NOVEMBER 3, 1993

Brody, Hon. Kenneth D., Chairman, Export-Import Bank of the United States	3
Holden, Alfred, Associate Professor of Marketing, Fordham University	12
Houlihan, Peggy A., President, Coalition for Employment Through Exports	7
Lewis, Howard, III, Vice President for International Economic Affairs, National Association of Manufacturers	9
Mendelowitz, Allan I., Managing Director for International Trade, Finance and Competitiveness, U.S. General Accounting Office	5
Narayana, Darin P., Executive Vice President, Norwest Bank Minnesota	11

APPENDIX

Prepared statements:	
Brody, Hon. Kenneth D.	32
Holden, Alfred	94
Houlihan, Peggy A.	64
Lewis, Howard, III	75
Mendelowitz, Allan I.	44
Narayana, Darin P.	88

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Brody, Hon. Kenneth D., written responses to questions submitted by Hon. Maxine Waters (with enclosures)	113
Holden, Alfred C., "US Official Export-Finance Support: Can American Exporters Expect a Competitive Eximbank to Emerge?" *The Columbia Journal of World Business*, Vol. XXIV, No. 3, Fall 1989	97

UNITED STATES EXPORT–IMPORT BANK

WEDNESDAY, NOVEMBER 3, 1993

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT,
FINANCE, TRADE AND MONETARY POLICY,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 3 p.m., in room 2128, Rayburn House Office Building, Hon. Barney Frank [chairman of the subcommittee] presiding.

Present: Chairman Frank, Representatives Waters, Orton, Watt, Fingerhut, Bereuter, McCandless, Johnson, and Huffington.

Chairman FRANK. The subcommittee will come to order, a sufficient number being present. This subcommittee has a bifurcated jurisdiction. We have under our jurisdiction the multilateral development banks, which have as their primary focus economic development in nations abroad, particularly lower income ones.

We also have the Export-Import Bank, which has some elements in common with that but more I believe that are not, and the focus of the Export-Import Bank is to a large part that of the United States. Obviously, since it deals by definition with foreign trade, it affects others as well. But unlike the primary focus of the other parts of the subcommittee's jurisdiction, the Export-Import Bank has as its primary focus the economy here in the United States.

There has been particular concern over recent years in Congress and elsewhere about the extent to which the United States defends itself economically in the world. We have come through a period in which the primary focus of America's external relations was our concern with the Soviet Union and its allies. And I think during that period it is clear that the United States frequently subordinated our economic interests to our broader strategic interests.

The sense was that it was important for us to maximize our capacities as leader of the coalition of nations opposing the Soviet Union, and that was a very important thing to do. And in the course of that, many of us believed we deferred from time to time, and maybe more often than that, economically.

With the demise of the Soviet Union, one change that many are looking for is for the United States to be more assertive in its economic interests, particularly vis-a-vis the wealthier nations of the world, not at the expense of the poor. We have reached a consensus that the United States in its dealings with the rest of the world should not allow businesses and the people who work for them within the United States to be put at a disadvantage by the policies of our wealthy allies in Western Europe and East Asia. And

the Export-Import Bank has a role in that, because subsidy of credit as an inducement to nations to buy from a particular nation has been a part of the world.

We want to talk about the extent to which we support the legitimate interests of our own businesses, while at the same time working for a world in which export subsidy is substantially diminished, which I think many of us think of as the ideal.

At any rate, with the new administration at the Export-Import Bank, with a new era in terms of the world's economic relations, it seemed to us appropriate to begin what will turn out to be two hearings, because there is legislation that was filed by our colleague, Mr. Kennedy, which is relevant particularly to the Export-Import Bank. We will be having a hearing specifically on that legislation later. So we want to begin now with this set of general hearings, and we will then proceed in a week or two to that one.

Before calling on the ranking minority Member and anyone else who wants to make a statement, I want to thank Mr. Brody in particular for agreeing to appear on a panel with citizens. Now, this may not seem like much, but it has been my experience that when you ask some members of the executive branch to do that, you are accused at least implicitly of acting inappropriately. The somewhat artificial procedure, I think, of having the administration witness testify first and then later be followed by a group of people from the private sector or elsewhere is not a very good idea.

One of the things we try to do in this subcommittee is to reduce the rhetoric and the posturing and promote general discussion, and we think it is best done by this sort of a format, but that is not the norm. We have executives who think they have to speak first and then leave. Mr. Brody, I am curious, I appreciate your willingness to break with that and participate in the panel, and it will take a little more of your time and maybe not live up to all the protocol, but I think it advances this subject and our ability to have a genuine discussion, so I am appreciative.

Mr. Bereuter.

Mr. BEREUTER. Thank you very much, Mr. Chairman, and thank you for calling this hearing on the Export-Import Bank, which is the first of what I understand will be four hearings on the subject of export, trade, and procurement issues.

I want to agree with the tone of your remarks when you express the views about the fact that we are in a post cold-war era. It has been my view that there is the perception reflecting reality in large part, the perception that I share, that all too often during the cold war period the United States did not aggressively insist on the implementation of its trade agreements. It set them aside for reasons of national security and foreign policy.

And too often the State Department and the Defense Department prevailed in arguments, and the White House, regardless of administration, over the objections of the exporters but within the government over the objections of the Commerce Department, the U.S. Department of Agriculture, and all too often also the USTR, and there is no reason for that. Our interests are very much—our national security interests are very much tied to a strong economy and an export base.

I think it is quite clear that one of the most dynamic or bright spots in our economic growth has been due to the export sector. In 1992, this subcommittee reauthorized the Export-Import Bank for 5 years, in the Export Enhancement Act.

That same act required at long last, in my judgment, the creation of an interagency Trade Promotion Coordinating Committee [TPCC] to create an integrated and focused approach to export promotion throughout the U.S. Government.

I am particularly pleased to welcome therefore today the Chairman of the Eximbank, Mr. Kenneth Brody, who has taken up his responsibilities at the Exim this year, and I understand has been an energetic leader in the TPCC process, which is newly established. So I very much look forward to his testimony and the testimony of the GAO and all of our distinguished witnesses who are here today on the subjects of banking, manufacturing, exports. And I am anxious to hear.

I do have to say I have a markup on the War Powers Act in a half-hour, so if I walk out it is only for that reason.

Thank you, Mr. Chairman.

Chairman FRANK. Thank you, Mr. Bereuter.

Mr. McCandless.

Mr. MCCANDLESS. Thank you, Mr. Chairman.

In the interests of time, I ask unanimous consent that my opening remarks be entered in the record.

Chairman FRANK. Without objection.

Mr. Fingerhut.

Mr. FINGERHUT. Mr. Chairman, I simply want to thank you for holding a hearing on this important subject and welcome the witnesses. I am on the same committee Mr. Bereuter is on, so I will also have to leave for the same hearing at 3:30 o'clock, but I appreciate the opportunity to be here.

Chairman FRANK. We will begin now with Mr. Brody. We will ask each witness to be very direct.

Let me stipulate, I assume you are grateful to us for inviting you; you don't need to tell us that, and we don't care about what groups you are with. Get right to it.

STATEMENT OF HON. KENNETH D. BRODY, CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. BRODY. Exports mean jobs. Success at exporting in this decade and in the next century will make the difference in America's living standards.

Exim's role is to maximize our budget and our human resources to promote as much exports as possible. By financing those exports, which otherwise wouldn't be financed, either in the one instance, meeting foreign financing subsidies, or in the other instance, financing when the private sector isn't there.

This year, the Clinton administration announced a new national export strategy. The highlights are a significant break from the past. Perhaps the most significant highlight is not even mentioned in the report, and that is we have an administration working together, people communicating across departments and across agencies, to have a real effect on our country's ability to export.

Let me go through some of the major items. We now will have a new tied aid policy. That is, we will be in a position to match competitors' long-term, low-interest-rate loans, whereby the donor country gives the loan and the receiving country purchases the goods from the donor country. We will be in a position now to counter it in a way that we have not done in the past.

Our objective here is to lower worldwide subsidy. This tool, combined with negotiations, we hope over time will lower worldwide subsidy. But in the meantime, while our competitors are participating in this activity, the idea is to give our companies a "level playing field," increase exports and, therefore, create more American jobs.

In export controls, as an offshoot of the new export strategy, there has been significant change in export controls. The major change is significant decontrol in computers. I won't say any more about it other than every single executive I have spoken to in the computer industry has met this with both glee and amazement, that this administration was able to go so far so fast.

But there is still a lot more to be done in the area of export controls. Advocacy: Other countries have as the norm top government officials supporting their businesses overseas, and it has paid off for them. We have done this infrequently, and certainly not in any organized way.

We are facing a new world. Our government is bound and determined to give significant advocacy support to foreign governments for our companies in order to create jobs.

The export strategy, in essence, has our government in cooperation with city-State programs and with private sector suppliers getting to a point where it can act like a trading company for the benefit of small and medium businesses who either are exporting a bit or are ready to export but need help.

The government can play a key role here. It is doing it through the establishment of one-stop shops, which ultimately will be rolled out through the country starting out in four locations as trial runs; Los Angeles, Miami, Chicago, and Baltimore. These one-stop shops will set up country teams overseas, and develop a strategic plan for each country and a much better system of getting the right information back to where it can do the most good in helping our exporters.

We are streamlining our export activities. For instance, feasibility studies will be focused in one agency. The notion of these streamlining activities, and virtually all of the TPCC, and the new export strategy has been, what does business need in order to win exports and create American jobs, and where can the government really add value.

Now, turning to Export-Import Bank for a minute. The major thing that we are doing is going through a very significant top-to-bottom look at everything, which many members of the Bank are completely involved in. We need to be much more aggressive, much more competitive, and much more user-friendly to the exporters. We need to have a real customer focus on the one hand, and on the other hand, make sure that we are getting the best deal possible that we can for the U.S. taxpayers.

This is a process—that is, a lot of time is being spent, and I think we shall see a lot of results. The first change earlier this year, instead of just having what is called preliminary commitments, which took an average of 3 to 6 months to process, we went to a system that said, we don't need to do all of that work for every single request, what's much more important in most cases is speed. So we went to a "letter of intent,"which will take half of the workload that Eximbank has and reduce the average response time to 8 days as compared to the 3 to 6 months average on the more lengthy preliminary commitments. This will greatly improve response time.

There are other focuses in particular, where I believe we need to do a much better job. One is in the area of small business. I think that in general the philosophy there will be one of wholesaling, one of marketing through others, and of using one-stop shops, commercial banks, city-States, in order to really amplify our efforts, and help develop an export mentality among small- and medium-sized businesses. Eximbank will be there with the financial support, both on a pre-export working capital basis and also on a medium- and long-term actual funding basis for the exports.

The second is in the environment, and there are two tacks. One is in the design of a program to promote environmentally beneficial goods and services in foreign countries, and there is a lot that can be done there by the government to aid this rather large and diverse sector where we have many natural competitive advantages; and two, to relook completely at the way Exim has looked at environmental effects of its projects overseas. A lot of work needs to be done in this complex area. But, it has been started. And we are getting into it in a significant way.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Kenneth Brody can be found in the appendix.]

Chairman FRANK. Thank you, Mr. Brody. We will return to some of these issues.

Next, I am going to recognize Dr. Allan Mendelowitz. I also want to say, he is here on behalf of the GAO and we appreciate also the GAO participating in this format. It has not always been the way the GAO has done things. We think it will be helpful.

Dr. Mendelowitz.

STATEMENT OF ALLAN I. MENDELOWITZ, MANAGING DIRECTOR FOR INTERNATIONAL TRADE, FINANCE AND COMPETITIVENESS, U.S. GENERAL ACCOUNTING OFFICE

Mr. MENDELOWITZ. Thank you.

I would like to say that the level of effort being devoted to the improvement of the government's export promotion efforts this year has been unprecedented. Commitment to substantial specific changes has been made and there is a commitment to additional change in the future as the TPCC proceeds with its requirements to establish governmentwide priorities and a unified budget for export promotion within the context of the President's 1995 budget.

I would like to make comments in four areas with respect to the Export-Import Bank. One deals with coordinating its programs with programs of other agencies. The second is combating tied aid.

Third is the impact of credit reform on the Eximbank. And the fourth is improving delivery of services.

Now, regarding the needs for coordination in export financing programs, there is some overlap and duplication in the programs of Eximbank; its programs overlap with both the Small Business Administration and the Department of Agriculture's export credit guarantee programs.

In the TPCC governmentwide strategy, there is a commitment to integrate and harmonize the programs of Eximbank and the Small Business Administration, as well as deal with some of the management problems at SBA. If the problems at SBA are not corrected within a year, there is a commitment to moving all the export working capital guarantee programs to the Eximbank.

However, the plan is silent about any effort to reduce overlap and duplication between Eximbank and the Department of Agriculture. And that is something worth dealing with at some point in the future.

With respect to tied aid, a major international agreement to reduce tied aid offers by the members of the Organization for Economic Cooperation and Development was reached in 1991, and took effect in February 1992. In addition, in order to respond unilaterally to other countries' continued use of tied aid, the administration, as part of the TPCC process, announced creation of a $150 million fund to finance major capital projects overseas to combat tied aid.

The Eximbank has been given the task of administering this fund, $50 million of which will come out of the Eximbank's budget and $100 million will come from the contributions of other export promotion agencies' budgets. As yet we have not yet identified where that $100 million will come from and there have not been criteria established to guide how this particular fund is going to be used.

This is particularly important for two reasons. One, use of tied aid is very expensive. The grant component is so high that it cuts into the agency's ability to make other loans when it is used, so it has to be used effectively.

Second, since the OECD Agreement went into effect in 1992, the policy of Eximbank has been to use tied aid only to enforce the terms of the OECD agreement. However, it is possible to easily identify examples where our national interest might in fact be harmed by tied aid offers that conform to the agreement; that is, don't violate the terms of the agreement.

Therefore, I think we need to think a little more expansively about setting criteria designed to defend our economic interests, which permit use of the fund even when responding to tied aid offers that don't conflict with the OECD Agreement.

With respect to credit reform, with passage and the application of the Credit Reform Act, beginning with fiscal year 1992, the way in which the budget for the Eximbank is set has changed dramatically. Instead of putting a limit on the amount of loans and guarantees that can be issued by Eximbank, Eximbank now, in effect, has a credit subsidy budget. When new loan guarantees or direct loans are made, the subsidy costs must be estimated up front and

counted against the subsidy budget set for Eximbank in the budget process.

Credit reform does give Congress greater control over the incurring of real costs on the part of the Eximbank. However, it complicates the congressional assessment of whether Eximbank has enough resources. Until loans are actually made or guarantee commitments are actually made, it is unclear what the credit subsidy cost of various credit undertakings of the Eximbank will be because they depend upon how risky a beneficiary country's loans are. How much new credit assistance Eximbank can offer depends very heavily on the risk rating of the countries involved.

A total of $1 billion in budget authority can support $2 billion in loans to extremely risky borrowers. On the other hand, it can support $10, $20, or $30 billion in loans to far less risky borrowers.

Last, with respect to delivery of services, Eximbank relies very heavily upon the private banking sector to deliver its products to exporters. This has been a real problem. Banks have been cutting back their international lines of business. In addition, some of the greatest need for export credit involves small businesses whose small-sized transactions don't really represent sufficiently profitable products for banks to get involved in. These factors have created a problem with respect to the ability of certain classes of potential exporters in accessing capital, in particular working capital, needed to support exporting efforts.

More effort is going to have to be devoted both to getting banks more actively involved and also expanding some of the interesting initiatives that the Eximbank has started or is committed to, including the city-State program and the commitment to participate in one-stop shop efforts.

Thank you.

[The prepared statement of Mr. Mendelowitz can be found in the appendix.]

Chairman FRANK. Thank you very much, Mr. Mendelowitz.

Let me say as I should have at the outset, if any of the panelists wish to insert into the record prepared statements or supporting documents, if there is no objection from my colleagues, and there appears to be none, that will be allowed.

Next we will hear from Peggy Houlihan, president of the Coalition for Employment through Exports.

STATEMENT OF PEGGY A. HOULIHAN, PRESIDENT, COALITION FOR EMPLOYMENT THROUGH EXPORTS

Ms. HOULIHAN. Thank you, Mr. Chairman.

There are three key points regarding Eximbank I would like to raise: The funding for the Bank; the war chest-tied aid issue; and the competitiveness of the Bank.

Attached to my testimony which has been submitted I have two charts. And I think the first one is rather impressive. I think it shows a dramatic increase in Eximbank programs for recent years.

We were pleased to see that this year Eximbank reached the highest lending level in its history, $13 billion; that level supported close to 300,000 jobs.

Chairman FRANK. That would be for the fiscal year just ended?

Ms. HOULIHAN. That is correct, fiscal year 1993.

This year we believe Eximbank has sufficient resources to meet the growing demand for export finance. We were quite pleased that Congress appropriated $1 billion in budget authority for the Bank. We believe that level could support up to $18 to $20 billion in Exim lending this year. And that again means another 100,000 additional U.S. jobs.

My second chart shows that as well, and again you can see the rather dramatic increase. We also have an increased job appreciation with that 100,000, so it is a 2-year total of 400,000 American jobs. I think this is a real strong program and I think we got a lot of bang for the buck with it.

We also think the demand for Exim financing is likely to increase in fiscal year 1995, particularly in Asia, Latin America, and the newly independent States of the former Soviet Union.

Second, Dr. Mendelowitz' reference to credit reform and the new budget rules, we think they have been very, very positive in their effect. We have shown a very high leverage factor with Exim budget authority so that they can reach the total amount they can support. The leverage factor is about 1 to 20 for fiscal year 1992, about 1 to 24 for 1993. Again, it is a real strong bang for the buck.

Going on to the war chest and tied aid, this is a very difficult area. The international Helsinki Agreement on tied aid places American companies at a very significant disadvantage vis-a-vis our foreign competitors. We believe there are projects worth billions of dollars that fall outside the scope of this agreement. These include both grandfathered projects and untied aid. And now some countries are finding some new and creative ways of getting around the agreement.

During the past 2 years, Eximbank has used the war chest, as was said earlier, as an enforcement tool, primarily to get other countries to stop various predatory practices. Since the agreement was signed, Exim used very little of the war chest, only $32 million in the last 2 years, despite the fact there was budget authority.

This year Eximbank has $171 million available in war chest funds. There is $121 million left over from last year in unused war chest authority, and another $50 million in funds for this year. That is a significant amount of money. The $121 million has to be used for the war chest, so it is available and we are hopeful that Eximbank will move quickly now, this year, and use that money in a proactive, aggressive manner in support of our exporters. We know they have a mandate based on the charter, as well as the reauthorization that was passed last year, and we know they have the money.

I really am encouraged about the TPCC effort that was chaired by Commerce Secretary Ron Brown and Eximbank President Ken Brody. To take this issue on was really important. They have really come through with a very pragmatic approach.

It might be useful later on maybe to clarify this, but I believe the $150 million earlier mentioned is actually fiscal year 1995 money that we are talking about, with the other $100 million from the other agencies and $50 million in funds for this year, but perhaps we can clarify that later. As we read the legislation right now, there is quite a bit of money there and we would like to see it used quickly, and are hopeful that it will be.

Finally, as you know, U.S. companies face fierce competition in world markets. Exporters have expressed concerns that Exim may be inclined in the future to provide less financing in higher risk markets, particularly to conserve its budget resources.

Again, I really believe this year Exim has sufficient resources. We would like to see it operate aggressively, responsively to meet the foreign competition, particularly in the emerging markets in the newly Independent States and Eastern Europe, and in the expanding markets in Asia and Latin America.

In conclusion, a strong Eximbank is essential to our competitiveness. The President and Chairman of Eximbank brings great talent, enthusiasm, and commitment to Eximbank. We look forward to continuing to work with him in support of U.S. exports.

Thank you.

[The prepared statement of Ms. Houlihan can be found in the appendix.]

Chairman FRANK. Thank you.

Next we will hear from Howard Lewis, who is vice president for International Economic Affairs of the National Association of Manufacturers.

STATEMENT OF HOWARD LEWIS III, VICE PRESIDENT FOR INTERNATIONAL ECONOMIC AFFAIRS, NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. LEWIS. Thank you, Mr. Chairman.

You have already heard some discussion about Eximbank, and you are going to hear some more discussion about Eximbank from the next two witnesses. I was asked to step back from this proverbial tree and take a look at the forest; in other words, to examine the importance of exports to the U.S. economy.

To put it bluntly, if you don't understand the importance of exports, you are going to have a hard time coming up with a decent set of policies in regard to the Eximbank or to any other export-related matter. So let me briefly summarize the importance of exports as seen from the business community's perspective.

First of all, exports create high-paying jobs. Today, 7 million Americans owe their jobs to exports, and on the average these jobs pay 17 percent more than the normal industrial wage in this country.

Furthermore, I call your attention to the fact that in announcing the administration's national economic strategy, they estimate that with the proper set of policies, U.S. exports could reach $1 trillion by the year 2000. That means 6 million new jobs in the next 6 years.

Second, exports create economic growth. At the macroeconomic level, export expansion has accounted for roughly 45 percent of real growth in this country over the last 6 years. The 1991 recession would have been twice as bad as it was had it not been for export expansion that occurred during that year.

But macroeconomic numbers are hardly the whole story. At the microlevel, exports are a driving force in many of our most competitive industries. For example, exports account for nearly 80 percent of total sales in the petroleum equipment industry; 50 percent in commercial aircraft; 40 percent in semiconductors; 35 percent in

computers; 30 percent in analytical instruments; 30 percent in machine tools.

It is no exaggeration to say that many U.S. industries could not survive today without exports.

The individual companies in the industrial sectors I have just mentioned, as well as in many other sectors, find that exporting helps them maintain their competitiveness in at least three ways. First, it allows fixed costs to be spread out over a much larger customer base. Second, companies find exporting helps smooth out business cycles. And third, many firms find that exporting helps them keep track of their foreign competition and respond to that competition before it lands on their doorstep.

In addition to jobs, economic growth and industrial competitiveness, exports are important because of the ripple effect they have on the U.S. economy. Let me explain what I mean by this. Fifty companies are responsible for 43 percent of the total U.S. exports. One hundred firms account for 51 percent. Many people look at these statistics and draw the conclusion that only a few companies have anything at stake in who wins and who loses an export transaction. Nothing could be farther from the truth.

When export sales are made, thousands of suppliers in every State get increases in their business, which means more U.S. jobs and job security. When Caterpillar Tractor exports a tractor, 183 suppliers in 28 States, mostly in the Midwest have business and jobs at stake. When AT&T exports a digital switch, nearly 200 suppliers in 28 States will receive orders from this sale. When a small Louisiana firm, Arkel International, wins a contract in Kenya, nearly 50 suppliers in 13 States receive more business. And when Boeing exports a commercial jet, 5,000 companies across the country benefit from the sale, with Ohio being the State with most at stake in this supplier relationship.

Attached to my testimony are some maps which contain further details about the examples I just gave.

This network of suppliers or invisible exporters has a stake not just in the original sale but also in follow-on business involving spare parts and service. It is absolutely essential to understand this point about follow-on business, because as a rule of thumb, over the 15- to 20-year lifespan of the capital project or product just mentioned, follow-on business each year will equal 10 to 15 percent of the original sale.

So when the Export-Import Bank helps an American engineering firm in Irvine, California, win a contract to build a petrochemical plant in Indonesia, a plant in Massachusetts is likely to benefit not only from the initial sale but for the next 15 years as the original equipment in that plant is replaced or upgraded.

This follow-on activity is probably the least understood or appreciated aspect of exporting today, but it is critical to the overall performance of U.S. exports.

I would like to close by noting that we are at a critical juncture in terms of U.S. export policies. Between 1986 and 1992 exports grew rapidly. This past year export growth has slowed significantly. If this country followed past practice, we would do little if anything to continue to implement a national export strategy and we would wait for economic forces to straighten things out.

Such complacency about our export policies, however, is no longer acceptable. We have to stick with building a better export infrastructure in this country, in both good times and bad. This means, among other things, maintaining a strong Export-Import Bank and implementing the administration's national export strategy.

Thank you.

[The prepared statement of Mr. Howard Lewis can be found in the appendix.]

Chairman FRANK. Thank you.

Next we will hear from Darin Narayana, who is executive vice president for Norwest Bank Minnesota.

STATEMENT OF DARIN P. NARAYANA, EXECUTIVE VICE PRESIDENT, NORWEST BANK MINNESOTA

Mr. NARAYANA. I am going to be speaking about for the next 5 or 7 minutes how we can get the American commercial banks to finance exports using Eximbank——

Chairman FRANK. Or anything else.

Mr. NARAYANA. Or anything else.

Both Eximbank and the U.S. commercial banks have one thing in common. We have the same last name, called a bank. I think the issue that is going on is that I personally am involved with over 1,200 exporters, both medium and small, in 14 States. In looking at these exporters, there is something that really struck them in the last 4 or 5 years, and that is that all of a sudden their sales are coming more and more from abroad. That is number one.

And number two, these sales are coming from what you call the emerging markets, which is Latin America, Southeast Asia, and part of Eastern Europe.

As emerging markets go, one of the fundamental aspects to exporting to emerging markets is the need for finance. Given the lack of availability of hard currency, these countries want financing. Therefore, the first place they go to is their banks.

And, as you know, since 1982, 1983, a number of commercial banks have really stopped lending on a trade finance basis, and they got burnt both on their books as well as by the regulators as well as by the bank stock analysts. Therefore, it is very hard to promote lending to emerging markets just because their exporters are exporting more to those markets at the same time they are having problems on the loan loss ratio side of things.

Therefore, how can we bridge the gap between the need in the marketplace and the lack of desire to lend? Essentially, what has happened is Eximbank stepped into the middle and, in effect, became the assurer, if you will, of risks that exist.

There are two risks that really exist with small- to medium-sized exporters. One is that the performance risk, the ability, or lack thereof, to really go through the export transaction. The second risk is the postexport finance, which is to collect on exports that were already made.

And Eximbank's working capital loan is the key to a number of these companies. And if your commercial banks have sufficient incentive to provide this financing, I think that you will see more participation by commercial banks in the United States. The fact

that for every 20 financing transactions we work on, one happens, we are spending an incredible amount of time and investment to put a deal together, just to see it go away.

Eximbank has a problem. They have only so many people, so much to do, so much demand. How do we bridge the gap? One way is I believe we ought to form a partnership between Eximbank and the U.S. commercial banks in ensuring that the commercial banks' outreach would help provide the financing needed to facilitate exports.

Eximbank must be willing to not only share the risks with the commercial banks through delegated authority, Mr. Brody, and also some of the fees that are involved in this exposure, so it is economical for commercial banks to do the business.

Then the other issue is that, you know, in the TPCC deliberations, there were some very good recommendations made. To carry out those recommendations, we need to retool the SBA, Commerce, and Eximbank officials in really what is happening today in the marketplace. To that extent, we are willing to cooperate with Eximbank, if you will, and the commerce to train these officials so they can be more responsive to what is needed in the marketplace.

The other issue is that in the immediate term and longer term financing for medium-sized and capital goods exports, what is fundamental is that Eximbank continue to maintain the balance between short-term lending and medium-term lending, because most of these companies don't qualify for direct lending.

Basically, I have three recommendations. One is to foster cooperation with commercial banks so we can bring more of the smaller banks into the picture. Number two, retrain and retool the officers out in the field so they can be responsive. Number three, again, one thing that is to make the programs overall user-friendly.

Thank you.

[The prepared statement of Mr. Narayana can be found in the appendix.]

Chairman FRANK. Thank you very much.

Finally, Dr. Alfred Holden, who is an associate professor of marketing, Fordham University.

Dr. Holden.

STATEMENT OF ALFRED HOLDEN, ASSOCIATE PROFESSOR OF MARKETING, FORDHAM UNIVERSITY

Mr. HOLDEN. Thank you very much.

I have eight recommendations which, I hope, will facilitate the process Mr. Brody has outlined. I think it is useful for both the overseers of Eximbank and those at Eximbank to be aware of some of these points.

My first recommendation is to eliminate the rhetoric problem. I find throughout the years that U.S. export finance problems have been described in a way that does not facilitate evaluation. For instance, the Export-Import Bank of the United States continues to use the words "extraordinary support" for something that is clearly ordinary support among the other G–7 countries. This includes the latter providing such things as exchange risk insurance, local cost support and so on, including mixed and tied aid credits.

Another example of this rhetoric problem is repeated use of the words "predatory pricing," and another expression, "spoiled markets," to describe importers who demand the lowest cost.

As a marketing professor, I must say that it is foolish to use these expressions, because export prices are a variable in the international marketing mix. Creditworthy buyers around the world recognize that an overcapacity is going to force down the price.

The second recommendation is to expect delays in any OECD negotiations in the future. I find throughout, going back to the 1976 agreements, that we have never learned to anticipate the delays that our G–7 partners are going to in terms of negotiating a new OECD export finance arrangement.

The thing we have to recognize is that we are asking our G–7 competitors to reduce their export finance competitiveness as the means to increase our export finance competitiveness.

If that isn't a formula for moving at all deliberate speed, I don't know one. This is a problem. Meanwhile, U.S. exporters are forced to operate under the existing rules which, in many cases, are insufficient.

As a third recommendation, we should acknowledge once and for all that most countries around the world, especially the OECD countries and a good number of less developed countries, consider their exporters entitled to continuous and guaranteed export finance support. The former Chairman of the Eximbank used that expression some time ago, and I think it is a very accurate one.

So while our Treasury seems to hail each new OECD arrangement as a victory over subsidized competition, Japan, France, Germany, other European Community countries and some less developed countries are finding ways to provide day-to-day support; that is, they are relentless. And incidentally, I think we need to see exactly how these G–7 countries are doing this. I know we have OECD documents, but we don't know the full details of the continuous support.

The fourth recommendation is that we find a way to put export finance competitiveness into an evaluation of the national interest. That is, the United States cannot afford to stay a counterpuncher. We have heard this from several people and I don't think I need to say too much more. But the counterpuncher role in the United States is to seek to reduce the competitiveness of others as a means to increase our competitiveness.

For example, the April 26 semiannual report on tied aid considers the primary interest of the United States in the 1992 Helsinki Agreement to be preserving the disciplines while establishing OECD tied aid case law. I wonder if that is the primary interest of the United States.

The fifth recommendation is that we do a better job mobilizing business documentation for how Eximbank can be made more competitive. For instance, the excellent book on export finance of the National Association of Manufacturers is to be recommended to everyone. Exporters are willing to document how jobs can be created, if Eximbank can be made—what Chairman Brody promised in his swearing-in ceremony—the most efficient and effective tool for increasing the sale of American goods and services abroad.

The sixth recommendation is that we recognize that successful international marketing requires businesses to have information about what Eximbank and Treasury will do in 1993–1994. Businesses trying to export must have exact, updated sector and country criteria as to what in fact the OECD case law is as it unfolds. That is, I don't believe international marketers can afford to prospect around the world without knowing exactly what Eximbank or Treasury will or will not support.

As a seventh recommendation, we can model the trade environment, and that way perhaps make Eximbank more customer-friendly. If we could develop a model that anticipates what OECD competitors are likely to do in the future—after all we have a wonderful track record of what they have done since the mid-1970's—I believe this will allow Eximbank and Treasury to respond faster and avoid the shocks to Congress. I think many of you recall the shock that greeted the 1989 tied aid report, something the business sector had been talking about for a long time.

The bottom line in this modeling is to make Eximbank more customer driven, more customer-friendly. Business would then have an idea that there would be justification for Eximbank moving to support various transactions.

As a final recommendation, it is useful to listen to those who have studied and testified about the long-term nature of this U.S. export finance inadequacy. For instance, several of us have written articles and conducted research, but let me repeat the most succinct quote I think was ever presented about this topic. It was given by the late Senator Heinz at Eximbank hearings in October 1985.

"I might add that economists make wonderful, convincing arguments about how export subsidies distort free trade and are costly and inefficient. In the area of export credits, however, these arguments too often neglect the fact there is no free trade to begin with. They too frequently gloss over the overwhelming evidence that when the United States stays out of the mixed credit business, the practices do not go away, only the business goes away."

Thank you.

[The prepared statement of Mr. Holden can be found in the appendix.]

Chairman FRANK. Thank you. Let me begin. As is always the case, we focus on areas in the questioning not according to their importance but according to where there might be disagreement. There is a very real area of agreement here, and I think that Mr. Lewis' argument this year falls on very receptive ears, and I think increasingly we have broad recognition in Congress of the importance of exports to the economy, and broad recognition that some active policy by the Federal Government is necessary to make sure that American exporters get a reasonable opportunity in a world where political influences and sovereignties are involved.

So the question then is, we have moved into the tied aid area. As you said, Mr. Brody, our purpose in tied aid—and I think it is one that is widely subscribed to here—is twofold, it seems to me. One is to make sure that our exporters are not put at a disadvantage, but simultaneously to move to an era in which there is less of it.

I gather what Dr. Holden is saying is that, given the nature of the world, the latter is so ephemeral a hope that we really should not make that too operational and, in fact, the danger is that concern about accomplishing the broader goal of diminishing this will interfere with the shorter term, very important goal of making things fair for our people.

Now, I would be interested in everybody's comment on that. I take it that is the tension we are talking about.

Have I misstated you, Dr. Holden?

Mr. HOLDEN. No. A perfect example of that comes from the OECD annual development cooperation reports and the definition of untied aid, which is not included under the Helsinki Agreement.

We should not be surprised that the Japanese have seen a recent multifold increase in their untied aid, which means it does not have to be notified under the Helsinki Agreement. So we have a new problem.

Chairman FRANK. What is untied aid? Give us that again.

Mr. HOLDEN. Untied is becoming what we used to call tied aid; only about 90 percent (instead of 100 percent) is tied to procurement from Japanese companies.

Chairman FRANK. Define it for me.

Mr. HOLDEN. It is precisely how the Japanese and some others now give aid. Subsidize the export transaction through aid loans. If a loan contains a certain subsidy element and is tied to procurement of the OECD donor, it should be notified under the Helsinki Agreement.

The Japanese and others now call these untied aids, claiming they are not tied. But OECD documentation is that perhaps 90 percent of the so-called untied aid of some OECD countries is tied.

Chairman FRANK. You are saying we have a very high incidence——

Mr. HOLDEN. That is right, hardly coincidence.

Chairman FRANK. Of concessional terms, and the contract going to a Japanese company, so it is not formally there, but there is a high statistical——

Mr. HOLDEN. Right.

Chairman FRANK. I wasn't sure about untied aid. Maybe it is a concert for recovering S&M practitioners.

Mr. Brody, I am interested in your comments.

Mr. BRODY. Sure. Let me make a few comments.

One, let me start out with a few facts; 1991 tied aid was around $15 billion worldwide. This year, tied aid is running a little less than $6 billion.

Chairman FRANK. What was the first figure?

Mr. BRODY. $15 million, 1991; 1992 is a year of transition.

Nineteen hundred and thirty-three is an interesting year to look at. One can note no causality. One can note rules change. One can also note that most of the countries' financial situations are different and worse in 1993 than they were in 1991, which could have an impact on this.

And then one could also note an increased concern about activities not called tied aid, but in essence having the same effect.

The second piece of information is that, in fact, today untied aid is substantially more important than tied aid. If tied aid is this

year running on the order of around $6 billion or a little bit less, untied aid, untied in quotes, is running on the order, I think, of about $12 billion.

Chairman FRANK. Untied in the sense we just talked about, where there is this high correlation of——

Mr. BRODY. At the present time, let me just comment on what we are doing on untied aid—to just have a focus on what the rules are as opposed to the actual, real-life action.

We have quite a concern about untied aid, given its large size and the serious question that it may be as close to tied as tied aid.

We have initiated a task force to start examining what the real facts are, and what our appropriate response should be? But, it may be that an appropriate response has little to do with the formality of the OECD rules. That is yet to be determined.

On the business of tied aid, the big question today for most U.S. exporters is, when is it going to get started, and what are the rules? The reason the rules or criteria are important is, if our $150 million budget for 1995 or our availability of $171 million for 1994 gives us in the area of 600 to 700 million dollars' worth of concessional loans, and the worldwide aid, tied aid, is running around $6 billion, we have a rationing problem. So we need to be smart about how we are using our money.

Just as an aside, although the $600 million looks small relative to $6 billion, none of our major competitors this year will be offering substantially higher volume. The largest may run something less than $1 billion. So we are in the ball park of where our largest competitors are in the tied-aid game.

We have been working hard to establish criteria, and it is our expectation that in the near term, we will be dealing within the government, with the executive branch, to come up with about where we should be. Then we expect to have significant dialog and input from exporters so that we then can go forward with our tied aid program.

Our objective is to do it as quickly as we can, subject to having some real sense in it, given the fact that we have a rationing problem and we can do a lot of good if the money is used wisely.

I believe that there is little, if any, tension between wanting subsidies to go down worldwide and our aggressive use of our tied aid budget.

Chairman FRANK. Let me ask others. Mr. Lewis.

Mr. LEWIS. One thing it is important to put in some context here is the history of these negotiations to try to bring under control export financing in the OECD. We, essentially, spent about 20 years negotiating, trying to put some teeth in an agreement to deal with ordinary export financing. Once that agreement began to get some real teeth in the early 1980's, we found that our competitors all moved over to the playing field of tied aid, and then the United States spent another 13 years negotiating an agreement on tied aid and arguing over whether we should have a policy in the United States on this area. Now we find an agreement in which the tied aid agreement is beginning to have some teeth of it, and lo and behold, we have moved over to the third playing field of untied aid.

It is important to put this in context—U.S. capital goods exports, which are the most competitive exports we have, about $180 billion

to the whole world; $30, $40 billion of that goes to Southeast Asia. Well, guess where most of Japan's foreign aid is concentrated in either a tied or untied fashion? Almost 50 percent of Japanese foreign aid is capital projects. It is concentrated on Southeast Asia. And you find the same thing is true in Europe and elsewhere.

Those are really big numbers, and they are affecting significant trade flows on the part of the United States.

Chairman FRANK. You have really provided the historical meat on the skeleton that Dr. Holden laid forward, inferring that the problem was—during the 20 years and 13 years when we negotiated the other two—we were hesitant about fully implementing the policy on the grounds that we were about to negotiate it out of existence.

I take it what you are saying, Mr. Brody, is that we don't do that anymore. We understand that we simultaneously implement that policy and we will stop when they stop, but we are not going to hold off pending these negotiations.

Mr. BRODY. This administration knows that exports can make a big difference in creating American jobs and America's living standards. We are not going to stand by while competitors gain significant advantage over us.

Chairman FRANK. Let me say I think we probably have a very broad—I am sure we have a very broad consensus here that whatever one thinks the ultimate goal ought to be, there shouldn't be any holding back, and in this past pattern, which—as you described it so clearly cuts across administrations, Presidents of both parties—the time has long since passed for us to hold back implementing any of these successful strategies, successful in helping exporters, because of the negotiations.

Mr. McCandless.

Mr. MCCANDLESS. Thank you, Mr. Chairman. Let me say this has been a very interesting panel, one from which one could learn a lot if one were desirous of doing so. Present company excepted.

Mr. Brody, in your statement you talk about the 1990's being the decade of American prosperity, based upon the fact that long-term growth will demand American exports to the developing world.

Mr. Lewis, you talk about the fact that roughly 45 percent of the real economic growth in the United States since 1986 has been due to export jobs and export growth.

Ms. Houlihan, you have a nice chart here at the conclusion of your presentation, showing what would appear to be about 125,000 jobs due to exports in the 1989–1990 period; 400,000 jobs currently are involved in employment due to exports.

Given all this to be the fact—and I have no reason to disbelieve you—why in the world, with $2 billion or a total of $41 billion of exports to England and Germany in 1992 and 1991 combined, do we have such a problem getting the North American Free Trade Agreement agreed to, when $40 billion went to Mexico, of which $31 billion was actual, the balance was the Maquiladora Program? Why do we have this problem when it is so obvious that we are not going to have to subsidize this kind of trade? I would be happy to start with you, Mr. Brody, or anyone else who would like to get involved.

Mr. BRODY. Sir, I have no problem in believing that exports are key to America's future, and trade agreements which promote America's exports are clearly important.

Mr. MCCANDLESS. The markets are there, it is a question of servicing the markets and putting together an agreement. Your bank would be very helpful in that. But it would not have to keep beating its head against the wall as it does in these smaller markets in the European Community and in Asia.

Why do we have people that say, no, no, this is just no good for us?

Would you like to comment, Mr. Lewis?

Mr. LEWIS. Your basic question is, why is NAFTA having such a hard time, which probably could take us the rest of the afternoon to discuss.

I would like to point out two facts. One is that my organization strongly supports it, and we have just released a study today with 230 case examples of how NAFTA is going to benefit job growth and business growth in the United States.

But one point on the whole issue of exports and financing: I find one of the things that has never come out in the debate over NAFTA is the incredible explosion of exports to Mexico. Last year, Mexico almost displaced Japan as our second largest market for United States exports. It did not; we exported about $41 billion to Mexico, $47 billion to Japan. I find those statistics incredible.

Japan is a nation 25 times larger than Mexico, and the difference in export levels isn't all just because there is an ocean between us and Japan.

But NAFTA is an issue that probably would take us too much time to go into in further detail.

Ms. WATERS. Will the gentleman yield?

Mr. MCCANDLESS. Yes, I will be happy to.

Ms. WATERS. Where do you think the money came from for the purchase of American goods in Mexico, and have they been increasing their income steadily over the past 10 or 15 years? How are they able to do that? Where do those jobs come from?

Mr. LEWIS. Who are you asking, me?

Ms. WATERS. Yes, you.

Mr. LEWIS. Well, basically Mexico is a major market. There is certainly a significant market for United States capital goods and United States industrial products in Mexico. I think the idea that Mexico doesn't have any money to buy United States goods has been proven wrong. Look at the statistics.

Ms. WATERS. I agree that, you know, given the statistics that you have given, they must have some money. Where did it come from? And have you seen an increase in the ability to purchase with their—an increase in their ability to work, and did the maquiladora play any part in that?

I am trying to understand; this money didn't just fall out of the sky. They earned some money somewhere. Where did they get the money?

Mr. LEWIS. Again, and I don't know if we want to get off in this debate.

Ms. WATERS. Oh, sure. You started off before. Let's keep going.

Mr. LEWIS. Mexico has had fundamental reform. In the last half-dozen years, it has oriented itself to a market economy and an open economy, which has required purchase of modernized factories to increase their technology use, to try to improve their infrastructure.

I don't understand your question—your question about where is this money coming from. It is a growing economy. We have seen a tremendous swing in the U.S. trade balance from a negative $5 billion to a positive $5 billion, a $10 billion swing. Mexico is going to be probably the only major trade country that we have a surplus with this year.

Chairman FRANK. The gentleman from California. The gentlewoman will be next in the regular order.

Mr. MCCANDLESS. Let me simply say that Mexico took to heart a bigger plan to a large degree, and privatized over 700 of its major industries to the tune of $32 billion that went into the Mexican Treasury. And as a result of that, the government was able to do many things, set up many programs that it had never had the resources to do before.

The standard of living is increasing rather dramatically, since they have been able to stabilize their currency and do these things that were necessary, including the payment of 50-some-odd percent of their national debt.

They had run a surplus—I say, a surplus—in their budget the last 2 years, $22 billion last year, a major amount of which went to pay off its international debts. So when you begin to find yourself in that kind of economic position—and these private industries who are selling goods and services all over the world and making a profit—that then creates a basis upon which the economy increases and the purchasing power increases. If there is any question in your mind of going into a market in a place like Chihuahua, and you will see all kinds of American products from produce grown in California—tomatoes, asparagus—in the box that is—are marked "California," to Gallo wine on the shelf from California.

So those are some of the examples. I brought this up because in the hearings that we have had previously—and thank you, Mr. Chairman, for your help on the time——

Chairman FRANK. That is all right. I just want to give them time to recover from this grueling cross-examination.

Mr. MCCANDLESS. We have talked about beating our head against the wall and being competitive with such things as Airbus in relation to international markets. And certainly all of these markets are important, and no one wants to discount them, and the Eximbank certainly plays a key role in this. But nobody seems to say, well, let's not mess with that market, because this or that or something else, yet we have a tremendous beginning here, not just Mexico but everybody else south—Central America, South America.

Thank you, Mr. Chairman.

Chairman FRANK. Ms. Waters.

Ms. WATERS. Well, I guess the discussion veered off into NAFTA, and I really did not intend——

Chairman FRANK. I would tell the gentlewoman, it is in order to ask questions about the Export-Import Bank.

Ms. WATERS. I know I have come in a little late, but I have quickly reviewed the testimony, and I see little or no mention of Africa. It is my impression that the Export-Import Bank plans very little involvement in the continent of Africa—maybe only in Ghana, maybe in South Africa—toward next year's program. How do you determine the Bank's policy toward Africa?

Mr. BRODY. The Bank has a legislative mandate to, in essence, lend, insure, guarantee when there is a reasonable assurance of repayment. In determining Eximbank country, there is a country interagency rating with the final decision made by OMB as to the riskiness of different countries. It is extraordinarily important for Exim to have an independent, highly credible country risk-rating process, so that its entire budget system can make sense.

Because of the legislative requirement that Exim lend only when there is a reasonable insurance of being paid, countries whose economic position are too risky for Exim to lend, guarantee, or insure, we really cannot provide support.

Those countries then become, with respect to the United States, much more a focus of our aid programs as opposed to an Eximbank Program.

What we have now in Africa is a number of countries where we are able to lend, and we are attempting to do that——

Ms. WATERS. Which countries are those?

Mr. BRODY. Ghana, as you mentioned, and right down—the south of Africa——

Ms. WATERS. So do you have—have you loaned to Ghana?

Mr. BRODY. Yes.

Ms. WATERS. About how much is in Ghana?

Mr. BRODY. There is something on the order of $200 million of loan requests. Our best estimate is, in terms of real business, that will work out to be $50 million, not because Exim isn't interested, but that is how the commercial transactions will end up going.

What we are trying to do is—with respect to those countries where we are able to lend, because there is a reasonable assurance of repayment, we are stepping up our focus to try to make sure that American exporters know that we are there and attempt to increase the amount of goods sold to those countries.

Outside of Ghana, most of the countries where Eximbank is open for business are in the very south of Africa. Unfortunately, other than that there is not that much we can do.

Chairman FRANK. We are running into time constraints.

Ms. WATERS. So I can understand what you are saying. If you are very poor and a developing nation, you are probably not a good risk for any lending from the Bank; is that right?

Mr. BRODY. That is correct.

Ms. WATERS. Let me also ask about what American firms you work with. As I look at a list that someone just showed me of the firms, they are the ones that are basically national in scope, they are very big—Boeing, General Electric, Kellogg, McDonell's, Caterpillar, and so forth.

Do you work with any small- and medium-sized firms?

Mr. BRODY. One, yes, we work with small- and medium-sized firms.

Two, I mentioned before you came in here that one of the initiatives that we are undertaking that I feel very strongly about is for us to do substantially more with small- and medium-sized businesses. Approximately 10 percent of the business activity of Exim, this past year and for the past few years, has been in the category of small business.

I believe that we need to do a lot more to create outreach. A lot of that will occur through the setting up of one-stop shops. The first four are going to be in Los Angeles, Miami, Baltimore, and Chicago. One of the things that I would note is, the bulk of the one-stop shops are spread throughout the country and will be located in cities. This will enable easy availability for city businesses who are either export capable or who are already exporting to get help from these one-stop shops in a way they have not been able to before.

Ms. WATERS. Is there one African-American firm involved in all this in the country?

Mr. BRODY. I am highly confident there are African-American firms involved. The reason that I am highly confident is that I have met with African-American businessmen who have dealt with us, and told me or given me information as to how Eximbank can be more helpful and more customer oriented.

Ms. WATERS. Would anyone on the staff know?

Mr. BRODY. Not specifically today. I am sure I could come back to you.

Ms. WATERS. If someone could just share that information with me about the level of involvement, and I would also like to know a little bit more about your planning for the one-stop shops, where they are going to be located in these cities, and what your outreach program is.

Chairman FRANK. We will put that in the hearing record.

Mr. BRODY. I don't want to falsely promise, Congresswoman Waters. I do not know if we keep the kind of information you are interested in on the companies that we deal with. Whatever we have, we will come to you with.

Ms. WATERS. Yes. Thank you.

[The information referred to can be found in the appendix.]

Mr. LEWIS. Could I add one quick point? In my testimony, you will note there is a very specific case involving a small U.S. company in Africa, Arkel International. This is an interesting case not only because of the 50 suppliers in 13 different States, but also from Kenya's point of view, it was an interesting case.

Basically, a European firm had built a sugar refinery in Kenya and they had messed it up. Kenya was in the ridiculous position of having to import sugar and it was impacting their balance of payments. They invited the U.S. company to come in for feasibility studies that were supported by the Trade Development Agency, and the feasibility studies led to an Eximbank loan; and an American firm, small American firm in Louisiana, came in, straightened the mess out, and Kenya is now building even larger refineries. And it is an example of not only a favorable impact on the United States, but on the country receiving the sugar refinery.

And the case is set out in the long report I submitted to the subcommittee, and I will make sure you get a copy.

Ms. WATERS. Thank you.

Chairman FRANK. Did it involve the Export-Import Bank?

Mr. LEWIS. Yes, most definitely.

Ms. HOULIHAN. I would also like to make a point regarding Africa. As you know, Eximbank is demand driven; as far as the applications that come in the door, Eximbank takes a look at these cases without respect to geographic region. I think it is important to note with our coalition for employment through exports, and it is very preliminary, we will be happy to share the results with you when we get more details, but our company has seen more business in Africa in the sense that they are making more applications for Eximbank in Africa.

So as far as specific countries and projects, I would be delighted to give you more information. This is from our companies and made up of large and small companies, a lot of the major exporters. I think that is significant. It was less than 1 percent of our companies that responded to this about 2 years ago, and about 5 percent last year, and now 10 percent. So I think it is growing.

Ms. WATERS. I hate to take up so much time, Mr. Chairman.

Chairman FRANK. It is his time, talk to him.

Ms. WATERS. We have many developing countries with resources that are unexploited, undeveloped. And do you and can you collateralize these loans with some of the undeveloped resources? What if there is oil? What if there is gold, diamonds? Why not?

Mr. BRODY. Congresswoman Waters, you are leading us into one of our growing lending areas. In fact, this is the best way that we can lend to a country that otherwise we couldn't. We have made significant progress in this area, and we are emphasizing it more and more. There are potential cases in Africa where this can be the case. I wouldn't want to oversell it, however, because it really does require a real collateralized operation, and it is much more difficult to do a transaction from start to finish. But, there are many project finance applications where Eximbank has good collateral, which gives the Bank a much better ability of being repaid than the country's economic environment might otherwise allow.

Ms. WATERS. But you have a country like Angola where American firms are there pumping oil every day. It seems they can pump a little to repay a loan and a little more to an American company that should not be a complicated situation.

Mr. BRODY. And, in fact, in Angola, we have had conversations about that very topic with specific companies on a specific project. The issue in a country like that, or the issue in Angola specifically, is whether or not we have the stability in the country that will enable us to be comfortable.

Ms. WATERS. Please don't use that as a criterion. Most of the places where we are today, trying to help, there is no stability.

When we talk about some of the stuff you are going to be doing in some other places, I mean, I think that is part of the risk assessment; but certainly when you talk about a place like Angola, that could use a lot of help, the American firms have continued to pump oil right through the wars. They did whatever they had to do to the point of importing Cubans to protect the oil wells in order to keep pumping that oil.

So, I mean, you know, there are going to be those kinds of uncertainties, but I don't think it should get in the way of doing what is—what can obviously be done. As long as the American firms can stay there and pump that oil, it seems to me that should reduce your concern about risk, about stability.

Mr. BRODY. Congresswoman Waters, I think we are in 100 percent agreement. The only reason I mentioned stability is just exactly as you said, to the effect it really affects our risk assessment, which is not to say if there is instability, we are not going to be there. Our business is to try to be there so that we can promote the export of American goods and promote American jobs.

In countries like Angola, we end up with a significant collateral—Angola ends up with a significant benefit as well. But we use this—and I think we now have better risk assessment abilities because we really have a good ability to collect information from on the ground.

Chairman FRANK. I am going to call on Mr. Watt, but in one sentence, one of the perceptions you have to deal with—not wholly or maybe even substantially of your own making—is that sometimes a different set of rules applies for Russia, whether we are talking about stability or creditworthiness, and so forth.

And Russia, we all wish things were going better there, but it has hardly been a model of stability, and everything else; and at the same time we read a great deal about Exim activity there. So at the very least, will you have to show that the same kind of considerations are shown and tolerance for uncertainty with regard to Russia extends to other parts of the world?

Mr. Watt.

Mr. WATT. Thank you, Mr. Chairman. It is very difficult being the new guy on the block, and you have to wait until last, and sometimes you think you understand something and then somebody asks a question and you realize that you really didn't understand it at all.

Mr. Brody, one comment you made in response to a question that Congresswoman Waters asked destroyed whatever concept that I thought I had of what tied aid is. You indicated that the Export-Import Bank deals only with countries that are a good credit risk, and that other lenders deal with countries that need foreign aid.

And I was sitting here thinking, I thought I understood what tied aid is; and then all of a sudden, realized that either I had a misconception of what tied aid is or I didn't understand what you were saying.

Could you clarify for me the connection between aid and tied aid and what your Bank does?

Mr. BRODY. Sure. I hope so. Let me try. And maybe what we have going on here is a rhetoric problem so I will try to clarify it.

Mr. WATT. Mr. Holden said we need to get beyond that. I did hear him say that, so help me get beyond the rhetoric problem.

Mr. BRODY. Let's see if we can't do that.

Clearly, in normal lending conditions, Eximbank lends to countries or guarantees the loan or insures only where there is a reasonable assurance of repayment. But those words are so broad that to say that that is a good credit risk would probably be overstating the case. In fact, where we are most valuable is right at the mar-

gin, in those countries that are really too risky for commercial banking and for private lending, but yet not quite so risky as to not have a reasonable assurance of repayment. And that is the whole business of this interagency rating system, where, in fact, what one would see is many, many of the NIS countries are presently off the board.

But what then we will turn to is the business of tied aid. I think you came in—it sounds to me like you came in with a concept that tied aid goes to the poorest countries.

Mr. WATT. I certainly had the concept that it had some connection with a level of economic well-being or lack of well-being.

Mr. BRODY. It does have some connection, but it is not the connection that one might think of immediately.

The bulk of tied aid in the world—what tied aid is is long-term, low-interest rate loans where the donor country makes the loan for the purposes of a project being built, and the receiving country buys the goods for that project from the donor country.

In fact, 80 percent of the tied aid in the world goes primarily to Asia. The figures for untied aid are probably around that level, or maybe even higher. And you could decide for yourself whether you think or what you think of countries like China, Indonesia, Thailand, and so forth.

Mr. WATT. Let me ask this question. Is there, in making the assessment of what projects are going to be funded with tied aid, is there—is this a creditworthiness assessment?

And the second part of that has to do with, if there is, then why have we not been using that aggressively on the African continent as opposed to only in Southeast Asia?

Mr. BRODY. To start out with, the United States has not been close to aggressive on tied aid. We have done very, very little. Recently, what we have done, in essence, has been to police violations of the OECD Agreement, and without getting into the technical details, it is very little.

This past year, we did slightly under $30 million of such concessional loans. The difference in our policy today is to become aggressive about it, to have a substantial amount of money targeted for its use. We have not yet completed the criteria and, as I said, it is difficult to put together the criteria. It may be that our criteria include primarily matching. What was put forward was to use tied aid as a counter to other countries' competitive strategies using tied aid.

So I make two points. One, in the business of countering the other countries, since our competitors are primarily going to Asia—if that indeed is the strategy undertaken—that is where we will be, countering where the others are.

Mr. WATT. How are we finding out where we are going, based on what our competitors are doing as opposed to finding out what is based on our interest, and where we could develop a good trading partner or a good export base?

Mr. BRODY. It turns out that our partners or competitors, in general, have been very smart at picking the countries that are in their long-term economic interest to deal with. So I don't think there is going to be something amiss.

The second part—just to complete the story and maybe leave it a little uncompleted—is one of the aspects that needs to be addressed in the criteria that we are currently establishing on tied aid and is directly the question that you are asking; that is, will we provide tied aid to a country that we wouldn't lend to because its risk was too high?

That has not yet been resolved. It is part of the criteria for going forward.

One of the things that you commented on, you are new on the block. I am new on the block, too. And my understanding is that for the last 20 years our government policy has been to do virtually nothing or very, very little in this regard.

So what we are doing now is a significant change. We are trying to develop the criteria and be smart about it. We are primarily thinking about what is smart in the American people's interest of creating jobs here in America.

Chairman FRANK. Let me say, I think some of the other panelists wanted to——

Mr. WATT. Go right ahead.

Ms. HOULIHAN. Can I comment just quickly? Another thing that hasn't been discussed here today—and it is somewhat in the purview, I guess, of the Foreign Affairs Committee, because we have certainly had enough discussions with Congressman Gejdenson and others on this—is really just the whole question of foreign aid. This is not just an Eximbank problem. We are focusing on a portion of it.

Under the International Helsinki Agreement, there is a series of projects that are not financially viable that are financed. They are allowable outside this agreement. Other countries use their foreign aid agencies to do that. That is not an export credit problem; that is a foreign aid problem in how we use foreign aid.

And again, this is something that Congress has been trying to grapple with since 1983, and the charter renewal of Eximbank where they actually put a program in Eximbank with a war chest and one in AID. The AID has totally ignored it, they are using less and less foreign aid throughout the world, and they are giving cash transfers away that are not tied aid, not tied to American procurement. That is what the Jobs Export Act passed by Congress last year was all about.

Again, Chairman Brody and Eximbank and the administration are approaching this very pragmatically, and they are proposing it with the best they can do at Exim, with limited resources.

Capital projects, these types of things are legitimate grants, and particularly in the developing countries that are not creditworthy. We have a major gap in development financing and Eximbank; it is not Eximbank's role to do all of it. They are stopgapping a very important piece of it; but again, there is another, broader issue out here.

Your questions are really good, they got right to the heart of it. As I said, it is somewhat outside the scope here, but I think it needs to be said that we are trying to address that problem, as well in other arenas.

Mr. NARAYANA. Can I please make a comment?

Chairman FRANK. It is Mr. Watt's time.

Mr. NARAYANA. In response to your question—also, Ms. Waters, listening to your questions about Africa—working with, as I said, a number of exporters, the interesting thing is, the number of medium to small companies that you brought up earlier have not traditionally looked to Africa as a market for exports.

This is where it starts, where the exporters look to find a market and say, gee, we have something from Kenya, whatever; and they come to a bank and they say, would you finance it, and we go to Eximbank. And that is how the chain starts. If there is foreign competition from Japan or somebody using the Aid Program, we go to Eximbank and say, look, there is competition from Japan. That is how this chain of events starts.

Traditionally, American exporters, I will be very frank; medium and small companies have not looked to Africa. All of a sudden we are seeing a tremendous interest in South Africa, which had traditionally been a market for exports.

Other than Ghana, Kenya, Nigeria, and now South Africa, to some extent Namibia, I don't know why, but American exporters have not traditionally looked to African markets. It is a tragedy because there are some goods markets out there.

Just a comment from the field.

Mr. HOLDEN. I would like to just follow that up.

One reason, of course, American exporters haven't looked to Africa is because the countries that do look to Africa happen to be the former colonial powers in Africa.

The interesting thing about tied aid is that a considerable amount of tied aid that has not gone to Asia has gone to Francophone Africa (such as Morocco, Algeria, and Gabon), countries where the United States is in direct competition with the French. Here we encounter the so-called spoiled importer problem. These countries demanded low-priced export financing, and the French were willing to give it to them. In some cases the Eximbank did match.

So Africa, in my opinion, is the second largest target of the tied aid, but primarily Francophone Africa.

I know several large transactions that went to the three countries I mentioned. Those were the so-called spoiled importers the United States targeted—an interesting use of words.

Mr. MENDELOWITZ. If you turn to the Eximbank's annual report—the most recent one covers fiscal year 1992, and it was issued, I believe, in December 1992—the Eximbank lists in its annual report every country that it has extended credits to, and it lists what its exposure is.

I wanted to reference a few of the numbers in this report, because I think it does represent an interesting case.

At the end of fiscal year 1992, the Eximbank's exposure on credits to Russia came out to just under $116 million. I went through and identified the African countries that the Eximbank had exposure to. And the exposure in Zimbabwe was almost $151 million, so that was more than Russia. Zambia was just over $130 million, which was more than Russia. Zaire was just under $922 million, which was substantially more.

Ms. WATERS. Why do you compare it with Russia?

Mr. MENDELOWITZ. Because the issue had been raised by Mr. Frank in terms of whether we had separate standards for——

Ms. WATERS. You are just getting started in Russia. This is very new. We have not had this kind of relationship with them. And what we are anticipating for that emerging democracy, I think it is a lot different than what we have done since the cold war ended.

Chairman FRANK. If the gentlewoman will yield, that is exactly right.

Mr. MENDELOWITZ. I was just trying to provide some numbers to indicate——

Chairman FRANK. If the gentlewoman will yield——

Ms. WATERS. I don't think it is a good one. I would like to compare it with some other countries, but not Russia. It is too new.

Chairman FRANK. I am talking about the future of Russia.

One other point that strikes me, and one question is, and, Mr. Brody, you have the advantage of being new, we can talk about this from a new perspective. But when we say Exim is not supposed to be doing political business, it is supposed to be looking at stability and economic opportunities, then you tell me that Zaire hit $922 million, it is hard for me to believe that anybody looked at the situation in Zaire and decided on purely objective criteria, unrelated to any role that the cold war might have played, that we have picked Zaire to have $922 million, more than everybody else combined.

So it is kind of hard to believe that some of these international geopolitical considerations didn't have some impact in previous years.

Mr. BRODY. Congresswoman Waters, the comment that I would make to you, which I think should be both hopeful and realistic with respect to at least exporting to those countries in Africa—I think there are eight of them, which are open for full business outside of the collateralized activity that you were talking about. Going back to the administration's new export strategy, as part of that strategy each country team is to develop a strategy for promotion of American goods in that country—and what we are to do with that information is be product specific and funnel it back to this country through the one-stop shops so that real business people with products that might not otherwise have thought of going to those countries will know there is a market there and that there is a likely interest in their goods. Eximbank is willing to step up with the preexport working capital to get it started; and then, upon the sale, is willing to make a loan into the country to purchase the goods.

One of the things that I would comment directly on is the question of assisting minority businesses. I believe that because of the involvement of the government, in this way, the government can add real value, whereas the private sector is not able to add the same kind of value for small- and medium-sized businesses. And with the existence of an Eximbank, there is the capability for more realistic assistance to companies for exporting.

Now, of course, what that means is companies have to be formed and whole and able to compete. But there is that reality, and part of the new export strategy's goal is to make that a reality.

Chairman FRANK. Let me return—Mr. Watt has been very patient, and we will finish with him.

Mr. WATT. Thank you, Mr. Chairman. I won't dare ask another question. I would just kind of say as a bottom line that I doubt that you would find that this subcommittee or the composition of this group is necessarily a microcosm of the whole Congress, but I think you might be able to surmise from the questions and comments of this small group that we are centered in trying to encourage minority export for minority businesses and also interested in seeing that the African countries are fed out of the same spoon that other countries around the world have been fed out of.

And if we can start being sensitive to setting some criteria that head us in both of those directions, I think at least this subcommittee would feel good about it.

Chairman FRANK. In fact, the three of us were in Africa a couple of months ago; and I think we all believe that Africa, from the standpoint of the United States, was one of the casualties of the cold war in that an awful lot got left out.

Before we close, I want to thank the panel. If any of what we have said stimulates you to any further thoughts, please feel free to write them down and send them to us. We will keep the hearing record open.

Mr. Brody, I was glad you mentioned the environmental issues. I had hoped to get it in. We are running late on time.

There does seem to be reason to criticize the way Exim has dealt with the environmental mandate it was given, not talking now about the export of environmental equipment, but the relative failure of Exim to take seriously the environmental mandate it was given in terms of considering the impacts.

This subcommittee has just gotten through, frankly, arm-wrestling some people involving the World Bank, in which we insisted that the World Bank in its own activities had to improve substantially its environmental performance—that is, its assessment of the environmental impacts of projects. We could hardly do less for an entity wholly under our control. Therefore, at the next hearing and in the future we do intend to give you some questions on that.

Mr. BRODY. Mr. Chairman, could I just leave with one comment on that topic?

Chairman FRANK. Sure.

Mr. BRODY. We have considerable interest in redefining the way we have dealt with environmental issues—both in terms of the promotion of environmental benefits and services and environmental effects on foreign countries.

As I have gotten more into this—and I do not come in being an environmental expert, but we have a wealth of expertise to tap in the government, which we are doing, and from outside the government, which we are starting to do. The situations are not parallel between a multilateral institution and an export credit agency. They would be parallel if we could have multilateral action on the part of our competitors, but that would be waiting for a very, very, very long period of time.

So what we have to consider in terms of the environmental issues is always the additional tension that when we do not do something for the environmental good, and another country is willing to

supply that same project, what we have done is kept our own hands clean from an environmental standpoint. But, we have not gotten the American jobs as some other country has.

And that is not an apology or defense or anything. We are very serious about the issue. I am just saying it tends to be complex and a bit——

Chairman FRANK. Where it is a question of tied aid, I think we are prepared overwhelmingly in Congress to say, since it is sort of a moral neutral, unless you happen to believe more deeply in Adam Smith than most of us do, then we do not want to lose jobs elsewhere. But where it comes to doing something that might be environmentally damaging, I think you will be making a mistake if you argue that since somebody is going to do it, America might as well do it, I think you will find a great deal of resistance to that.

The Congress has much more control over the Export-Import Bank than over the multinational institutions. So I have to say, in that area, I think many of us would feel that the tension is not nearly as great in public policy terms. We do not want Export-Import Bank going ahead and financing things that are environmentally damaging, even if the argument is if we didn't do it, someone else would.

That is something we will be pursuing.

Mr. BRODY. Sir, I have no interest in financing U.S. exports that are environmentally damaging.

Chairman FRANK. I am now going to invite you to look at the transcript of what you just said. Because what you just said clearly carried the implication that one of the considerations would be, well, if we don't do it, will somebody else do it. That is not, I think, a consideration that is going to go far in the environmental area.

I think people are prepared to say, yes, we do want to stay out of it, and we would then hope for much more aggressive effort through world negotiations to try and stop it. But I am saying it is not like tied aid where the argument, the quote that Dr. Holden cited of Senator Heinz, I think you would find a lot more support for that philosophy in the area of tied aid than in the environmental area. But we will be pursuing that at future hearings.

I would also suggest, because of interest on the subcommittee, if someone from the Eximbank would be available maybe later this year, after we adjourn, or in January, I think an informal conversation about Africa and the extent to which African-American businesses are able to participate, you would find some people ready to talk with you about that. We would probably want to do that sometime in January.

Mr. BRODY. From our standpoint, we don't need to wait for that. If you would like individual meetings to understand what we are doing, to give suggestions, and to have a real dialog, we are very interested in doing that with you. We understand the importance of the issue.

Chairman FRANK. We will be in touch with you. We appreciate that. The hearing is adjourned.

[Whereupon, at 5 p.m., the hearing was adjourned.]

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APPENDIX

November 3, 1993

STATEMENT OF
KENNETH D. BRODY
PRESIDENT AND CHAIRMAN
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT,
FINANCE, TRADE, AND MONETARY POLICY
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
U. S. HOUSE OF REPRESENTATIVES

November 3, 1993

Thank you, Mr. Chairman, for the opportunity to meet with you and the Subcommittee to discuss what the Export-Import Bank of the United States (Eximbank) is doing to maximize U.S. exports in a time of global change.

We have entered a new era. Gone is the Cold War, which long dominated our country's foreign policy and consumed enormous quantities of our national resources. Today, our focus is on an economic rather than a military strength.

I believe that the 1990's will be the decade of American exports, and the next century will be one of American prosperity built upon our ability to compete successfully in the global marketplace.

The developed world will continue to be a tremendously important market for U.S. goods and services. But, the biggest long-term growth in demand for American exports will come from countries in the developing world, and countries in transition, with very large and increasingly prosperous populations.

Eximbank's statutory mandate is to assist U.S. exporters in selling goods and services to these countries.

The developing world's GDP as a whole accounts for nearly half the world's output today. As these countries become more prosperous, some are going to be economic powerhouses. Already the trends are clear. The developed world's annual growth averaged only 3 percent over the past decade and is expected to average 2.7 percent in the next 10 years. By contrast, the developing countries grew 2.7 percent annually over the past decade. But they will grow an estimated 4.7 percent a year in the next decade. And Asia's growth has been, and is expected to continue, at 6.5 percent.

Four of the six most populous countries in the world are developing countries: China, 1.1 billion plus people; India, 900 million people, Indonesia, about 190 million, and Brazil, a little under 150 million. A fifth, Russia, has a population of over 150 million. The potential for growth is staggering. China, right now, has the third largest GDP in the world, measured on a purchasing power basis. Many economists predict in 10-15 years it will be the largest economy. India today already represents a market of 200 million middle-class consumers.

The competition between the United States and the rest of the developed world will be over major market share in the developing world. And the winners will enjoy better jobs and an improved standard of living. Unfortunately, America's business and government policies historically have not been aimed at preserving

and increasing U.S. market share in the most important markets. That needs to change. We need to take a long view in building and defending commercial presence in these markets. The Administration, in general, and Eximbank, in particular, already have started to lead the way toward this goal.

Certainly, we have lots of room for export growth. Our foreign sales of goods and services accounted for only 11 percent of our GDP in 1992. And even though our exports have grown enormously since 1970 (when they comprised 5.5 percent of GDP), our major competitors' exports have grown faster.

The Administration's major policy initiatives are aimed at strengthening U.S. global competitiveness into the next century. Cutting the budget deficit, containing health care costs, education and job-training initiatives, promoting free trade--these drives will make us more competitive.

In particular, the Administration understands the link between the demographics of the developing world and U.S. economic well-being. We are committed to economic growth through exports.

National Export Strategy

Several weeks ago, the President announced our national export strategy, a set of 65 specific recommendations. This national strategy was the culmination of many months of intense discussions by nineteen different Federal agencies under the legislatively mandated Trade Promotion Coordinating Committee (TPCC), chaired by

Secretary of Commerce Ron Brown. The Administration has developed a coordinated, targeted and aggressive strategy to increase U.S. exports and U.S. jobs. We will reach our goals through better organization, performance and recognition of what industry really needs and what government can realistically accomplish.

. We will provide U.S. Government advocacy at the highest levels on behalf of American companies pursuing foreign government procurement opportunities. Our competitors have done this for decades. Now it is our turn.

. We will now vigorously combat the tied aid practices of our competitors. Our new tied aid facility will allow us to selectively counter other countries' long-term low-interest rate loans.

. The Administration's goal is to reduce foreign tied aid use, especially in critical sectors such as power, telecommunications, transportation and the environment. Our objective--reduce worldwide subsidy, and as a means to that end, create a level playing field for U.S. bidders on selected projects.

. We have reduced export controls and will continue to do so. The computer industry has already voiced overwhelming support for this initiative.

. We will produce a unified budget for all U.S. Government export promotion activities, so that over time our resources will be allocated rationally.

. For small and medium-sized businesses, we will open one-stop shops in major U.S. cities throughout the country, offering all

U.S. Government export promotion services. The goal is to enable the government to act like a large trading company designed to assist small and medium-sized businesses.

Role of Eximbank

Now let me discuss how Eximbank fits into this strategy. Our mission--financing and facilitating U.S. export sales by meeting but not beating foreign government financing competition, or filling the gap when private sector financing is not available--has not changed. With the increased flexibility in our programs, the dollar devaluation since the mid-1980's, as well as an improved economic environment, U.S. exports have surged. As a result, in fiscal year 1993 Eximbank authorized about $15 billion in support for U.S. exports, which is a new record--the highest authorization amount in the history of Eximbank.

But, as the overall economic environment has changed, so must Eximbank. To respond to U.S. exporters' needs for support in the newly emerging democracies and other rapidly growing markets, Eximbank must become more creative, progressive and flexible. We are evaluating all our programs from case processing through personnel compensation. Some results have already been achieved. We have already reduced the time it takes to respond to U.S. exporters needs from over three months to only one week for a majority of our applications with our Letter of Interest. This faster response helps our customers clinch deals.

We are also preparing for the wave of private sector deals that will be coming our way in the developing world. Two years ago, virtually all of our loans were to governments. The shift to private sector transactions is underway. We are training our loan officers in the techniques necessary to analyze private sector transactions.

We are particularly committed to doing a better job of helping small and medium-sized companies grow into large exporters. As I indicated above, a major focus of the TPCC was reorganizing government to better serve these companies. At Eximbank, we are improving our pre-export financing program so that banks and other financial intermediaries will increase lending to these exporters. We also are looking at increasing access to our short-term insurance products. And we welcome any suggestions from the Subcommittee on how we can do more for smaller exporters.

We also have started doing a better job of conserving and leveraging U.S. taxpayer's dollars. In August 1993, Eximbank raised the exposure fee on aircraft financing guarantees after comprehensive analysis of the bottom-line costs of Eximbank-supported financing to airline borrowers, relative to both the private market, and to European export credit agency competition. With the new fees, we can increase the volume of exports we are supporting with our budget resources and we can focus our support on those transactions where we are really needed. U.S. Government resources should not finance exports which can proceed with private, commercial credit.

Reinventing Eximbank

Over the last three months, Eximbank staff have been engaged in a top-to-bottom analysis of how we can meet steadily expanding responsibilities in an environment with ever more constrained fiscal and physical resources. This effort is organized around five core objectives:

1. Significantly increase the exports per dollar of subsidy ratio through prudent, thoughtful management of Eximbank programs. This is particularly important in higher risk countries and in tied aid use, which could involve substantial budget use.

2. Re-engineer Eximbank processes to reduce significantly the time and effort needed to deliver Eximbank's products.

3. Focus on customer needs and customer service, to enhance Eximbank's effectiveness across the entire spectrum of small and large exporters. Eximbank's pricing policies will play a central role in this area, ensuring that Eximbank support is truly required to create additional U.S. exports and jobs.

4. Apply advanced Management Information Systems technology that will allow Eximbank to manage and monitor all of the Bank's activities.

5. Work to build a new export consciousness in America.

In this connection, there are numerous task forces dealing with customer needs, process, service, and efficiency of applications, data, human resources development and organization, leverage subsidy, and TPCC. There are over 100 Eximbank staff

developing the program and policy pieces that will form the new Eximbank. During the next several months, we will reconstruct Eximbank through discussions within the Bank, with the export community, with Congress and with other parts of the Administration.

We are not naive about the difficulties involved. This is one of the reasons that we asked all levels of Eximbank to participate in the process. We know that real change cannot be brought about without the full input and investment of the staff that must implement the change. It also is one of the reasons why we are revamping the processes by which all Eximbank staff are evaluated and compensated.

I would like to highlight two areas of great importance to Eximbank and its users: small business programs and programs for Russia and the NIS. A third area, environmental exports, will be the subject of a hearing of the Subcommittee in the very near future.

Small Business and One-Stop Shops

In FY'93, Eximbank authorized under all our programs approximately $1.62 billion for small business, which is 10.4 percent of our budget authority.

Activity under the pre-export financing Working Capital Guarantee Program increased by 13% in FY'93 to $159.7 million, which is an Eximbank record. Small business is a focal point of

our national export strategy; we hope to see continued increases in Eximbank support for small business.

To this end, as called for in the national export strategy, we are working to harmonize the Small Business Administration's Export Revolving Line of Credit Program and Eximbank's Working Capital Guarantee Program to streamline and simplify program parameters, procedures and documentation. In addition, Eximbank and SBA staff will be trained in each other's programs. Eximbank will also reduce the conditionality of our guarantee, and offer more delegated authority to qualified lenders. The purpose of these actions is to provide wider access to working capital financing for a broader population of U.S. exporters.

In addition to the Working Capital Guarantee Program, Eximbank has several insurance policies that are specifically targeted to small and medium-sized businesses. These policies are the New-to-Export and the Umbrella Policies (an insurance policy that is issued to an administrator and marketed to exporters). They provide insurance protection against the commercial and political risks of extending credit to foreign customers. We are looking for new ways to ensure that exporters are aware of these programs.

In January 1994, Eximbank, SBA, and Commerce's US&FCS will open one-stop shops in Miami, Los Angeles, Chicago and Baltimore. These shops will provide the exporting community with a single point of contact for all Federal export promotion and finance programs. They will provide crucial promotion and financial counseling for companies that already export or are ready to enter

the international marketplace. We will evaluate the pilot one-stop shops at the end of the year to refine them so that we can expand the number of locations as quickly as feasible.

The Eastern European Markets and the Newly Independent States

An area of continued growth and interest is our markets in Eastern Europe and the Newly Independent States (former Soviet Union). The Bank is now open in varying degrees in Poland, Hungary, the Czech Republic, Estonia, Latvia, Lithuania, Bulgaria, Romania, Russia, Ukraine, Belarus, Kazakhstan, Uzbekistan and Turkmenistan.

Since February 1992, Eximbank programs have been available to support U.S. exports to the Russian Federation. At present, Eximbank is willing to extend insurance, commercial bank credit guarantee facilities, and medium-term credits and guarantees based on export contract security arrangements, limited recourse project risk or Russian sovereign risk. To date, the Bank has approved in Russia $340 million in final commitments, and has in-house several billion dollars of applications in various stages of negotiation between U.S. suppliers and Russian buyers.

In July 1993, Eximbank signed an Oil and Gas Framework Agreement (OGFA) under which Eximbank may provide financing of $2 billion or more for purchases of equipment and services to revitalize Russia's energy sector. Security will take the form of assignments of hard currency export contracts with reliable offtake

parties, with the proceeds from those contracts deposited directly into offshore accounts. Eximbank will consider providing support for any transactions on a case-by-base basis. Repayment terms will be five years or possibly longer as appropriate.

All documentation for the OGFA is in the final stages of preparation for individual transactions. The only remaining hurdle is World Bank clearance on the negative pledge clause it includes in its loan agreements with Russia.

Eximbank is also prepared to provide project finance support on a case-by-case basis on transactions that generate foreign exchange or are secured by revenues from the sale of production by the obligor for foreign exchange (so-called limited recourse project financing). Eximbank is currently working on a project incentive agreement with Russia, which will provide the governmental assurances that will enable Eximbank to take the repayment risks associated with a limited recourse project. Eximbank has already approved one project financing transaction for $44 million and has two pending transactions that total more than $1 billion.

Eximbank is also open under its short-term credit insurance program to support U.S. exports to Belarus, Kazakhstan, Uzbekistan, and Turkmenistan, where the obligor is a government entity. In addition, Eximbank will consider providing support on transactions that involve either project financing or assignment of security in the form of hard currency exports in any of these countries.

Conclusion

The Administration is strongly committed to strengthening the U.S. economy and our international competitiveness. Exports are the key to economic growth--better jobs and standard of living. Business and government can and must work together in this effort and take a long-term view of building our commercial presence in foreign markets. Eximbank will be there when it counts to provide the financing critical for U.S. export expansion.

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on International Development, Finance, Trade and Monetary Policy, Committee on Banking, Finance and Urban Affairs, House of Representatives

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EXPORT FINANCE

Challenges Facing the U.S. Export-Import Bank

Statement of Allan I. Mendelowitz, Managing Director
International Trade, Finance, and Competitiveness
General Government Division

GAO/T-GGD-94-46

EXPORT FINANCE: CHALLENGES FACING THE U.S. EXPORT-IMPORT BANK

SUMMARY OF STATEMENT BY ALLAN I. MENDELOWITZ, MANAGING DIRECTOR INTERNATIONAL TRADE, FINANCE, AND COMPETITIVENESS GENERAL GOVERNMENT DIVISION

Overlap exists in federal export financing programs, such as that between the U.S. Export-Import Bank (Eximbank) and Small Business Administration (SBA) programs for small businesses and Eximbank and Department of Agriculture programs to finance agricultural products. In its September 1993 plan, "Toward a National Export Strategy," the interagency Trade Promotion Coordinating Committee (TPCC) made some specific recommendations, including a recommendation that addressed overlap between Eximbank and SBA programs. The plan contained no recommendations concerning the overlap of Eximbank and Department of Agriculture programs.

U.S. trade policy has generally been to oppose tied aid and dissuade our competitors from using it through international negotiations. A 1992 Organization for Economic Cooperation and Development (OECD) agreement established guidelines to discourage the use of trade-distorting tied aid. Since the agreement went into effect, Eximbank policy has been to use its "war chest" (a fund for responding to other countries' tied aid practices) only to police the OECD agreement. However, there are doubts about the effectiveness of the policy in view of weaknesses in the agreement and questions about its enforceability. Further, even if a competitor's tied aid offer conforms to the terms of the agreement, it may still hurt U.S. exporters and U.S. economic interests. The administration has recently proposed establishing a $150-million aid fund to finance major capital projects overseas as a way of combating other countries' tied aid use.

Changes resulting from the Federal Credit Reform Act of 1990 increase congressional budgetary control over the Eximbank. Congress limits the maximum costs involved in potential transactions up front--during the budget process. However, credit reform does not help Congress know how much in the way of exports any given authorized budget amount will support.

The Eximbank uses commercial banks and federal, state, and local agencies to make its services available to as many exporters as possible. Some of the Eximbank's efforts to expand the delivery of its services include making changes to increase commercial banks' participation in its programs, administering a city/state program, and using regional offices.

In the Eximbank's congressionally mandated annual survey of its customers (exporters and bankers), respondents perceived that the official export credit agencies of France and Japan have the most competitive programs overall and that the Eximbank has the least competitive programs. The chief complaint of survey respondents was lengthy case-processing time.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to testify before this Subcommittee on some issues affecting the U.S. Export-Import Bank (Eximbank) in its role of assisting U.S. exporters. As the Trade Promotion Coordinating Committee (TPCC) grapples with the task of defining and implementing the federal export promotion strategy, the Eximbank's role is being examined more closely than ever. Because it is the primary source of federal export credits, particularly in an environment where commercial banks are avoiding export finance, the Eximbank is a significant component of the government's export promotion efforts.

My remarks are based primarily on a GAO report on the Eximbank, and testimonies and reports on federal export promotion efforts in general, issued in the past year.

BACKGROUND

While the demand for export financing is growing in the United States, the availability of commercial financing has been problematic for certain markets. This situation has created an increased demand for Eximbank services. In fiscal year 1991, the Eximbank used virtually all of its budget authority for loans, guarantees and insurance--$11.3 billion--for the first time since 1980. The Eximbank offers a wide range of export financing assistance, including direct loans, loan guarantees, and export

credit insurance covering commercial and political risks. It also provides pre-export, or "working capital," financing that is needed to finance pre-export production or to develop foreign markets. In fiscal year 1992, the Eximbank provided $12.3 billion in assistance to U.S. exporters, a significant increase over the amount of assistance provided in previous years. For example, the Eximbank provided $6.4 billion to exporters in fiscal year 1988. Further, the number of transactions authorized by the Eximbank increased from 1,395 in fiscal year 1988 to 1,700 in fiscal year 1992. Nevertheless, the size of the Eximbank's staff did not significantly increase over this period. This circumstance has created many challenges for the Eximbank. Some of the major challenges the Eximbank is facing are (1) its coordination with other agencies and its role within the interagency TPCC, (2) its use of tied aid, (3) the implementation of credit reform, (4) the delivery of its services, and (5) the evaluation of the competitiveness of Eximbank assistance.

EXIMBANK'S COORDINATION WITH OTHER AGENCIES AND TPCC

One of the Eximbank's stated objectives is to work more effectively with other government agencies to better serve U.S. exporters. In our December 1992 report on the Eximbank,[1] we reported that although the Eximbank had worked well with other agencies to

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[1]Export Finance: The Role of the U.S. Export-Import Bank (GAO/GGD-93-39, Dec. 23, 1992).

coordinate certain policies at a strategic level (such as developing risk assessment policies), it had not been as successful in coordinating its programs at the operational level (providing services to exporters) with those of other agencies. For example, overlap exists in financing exports: The Eximbank and the Small Business Administration (SBA) both have export financing programs for small businesses, and the Eximbank and the Department of Agriculture both provide financing for agricultural products.

The Eximbank is one of the five core agencies involved in export promotion. (The others are the Departments of Agriculture and Commerce, the Agency for International Development, and SBA.) In several reviews over the past 2 years, we found that federal export promotion programs were fragmented among 10 agencies and suffered from inefficiencies, overlap, and duplication. Further, there was no governmentwide strategy or set of priorities guiding these programs. As a result, Congress charged the interagency TPCC[2] with developing such a strategy in the Export Enhancement Act of 1992. The act intended to set into motion a process, including an annual reporting requirement, through which the administration, working with Congress, can establish priorities for guiding export promotion efforts, reshape their programs to reflect those priorities, and marshal federal resources to fund them.

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[2]The Trade Promotion Coordinating Committee is an interagency committee created by the President in 1990 to address the government's decentralized approach to export promotion.

In September 1993, TPCC issued its first annual plan, "Toward a National Export Strategy," which is a status report on the TPCC's progress to date. The plan includes specific actions to improve the existing export promotion system in areas where TPCC was able to reach consensus. The plan also makes a firm commitment to establish governmentwide priorities and a unified export promotion budget within the context of the fiscal year 1995 budget. The Eximbank and its Chairman were actively involved in developing the TPCC plan.

One area of overlap specifically addressed by the TPCC plan involves the Eximbank's Working Capital Guarantee program[3] and SBA's Export Revolving Line of Credit (ERLC).[4] The TPCC plan included a provision to harmonize and integrate ERLC with the Working Capital Guarantee program. Further, if SBA cannot resolve within a 1-year period the problems it has managing the ERLC program, the plan proposed to consolidate within the Eximbank all export finance assistance for working capital purposes. We believe that consolidating the two programs (should an evaluation show that

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[3]The Working Capital Guarantee program was developed to meet the specific demand for pre-export financing for small businesses. This program encourages commercial lenders to make loans to small companies that have exporting potential but need funds to produce or market goods or services to export.

[4]Through this program, SBA guarantees repayment of loans made by financial institutions to small businesses for export-related purposes. These purposes include financing working capital needed to manufacture products for export, to purchase goods or services for export, to develop foreign markets, or to finance foreign accounts receivables.

SBA is unable to effectively manage its ERLC program) could not only improve small businesses' access to export financing but also could establish a precedent for reallocating resources across agencies based on each agency's comparative advantage. The plan did not address the overlap between Eximbank and Department of Agriculture programs.

TIED AID

Now I would like to turn to the issue of tied aid. The Eximbank is authorized by its legislation to establish a tied aid program to counteract the use of tied aid by other countries. "Tied aid" refers to foreign assistance that is linked to the purchase of exports from the country extending the assistance. U.S. trade policy has generally been opposed to tied aid and has sought to dissuade our competitors from using it through international negotiations. A 1992 agreement among 22 of the 24 members of the Organization for Economic Cooperation and Development (OECD) establishes guidelines to discourage the use of tied aid that would distort trade.[5] The agreement is meant to (1) restrict tied aid for commercially viable projects (primarily in advanced developing countries) by raising concessionality levels (the percentage of financing that is a grant or grant equivalent) and (2) increase

[5]OECD is a forum for monitoring economic trends and coordinating economic policy among its 24 member countries, which include the economically developed, free-market democracies of North America, Western Europe, and the Pacific. Although members of OECD, Iceland and Turkey have not signed OECD's tied aid agreement.

transparency (openness) about tied aid use by strengthening notification and consultation procedures.

Under the terms of the agreement, a participating member country planning to use tied aid must notify OECD. Other member countries may challenge the notifying country's tied aid offer if they believe it does not meet the new OECD guidelines. Once challenged, the initiating country must justify the use of tied aid on developmental grounds and show how the project does not meet the "commercial viability" test. A project is commercially viable if it is able to generate cash flow sufficient to cover the project's operating costs or can be financed by the private market or official export credits. If other countries are not satisfied with the justification, they may then make matching offers.

Although previous OECD agreements did little to reduce the use of tied aid, some U.S. officials believe that the new agreement will be more effective. Since the agreement went into effect in February 1992, Eximbank policy has been to use its "war chest"[6] only to police the agreement by selectively reacting against other countries' offers in cases where tied aid should not be used--particularly where consultations have not resulted in the withdrawal of a tied aid offer that has been considered inconsistent with the agreement. Although there have been seven

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[6]In 1986, Congress authorized the Eximbank to create a "war chest" fund to counter the use of tied aid credits by other countries.

derogations from the agreement since it went into effect, the Eximbank has made only one matching tied aid offer in that time period.[7]

U.S. exporters, Members of Congress, and others have expressed doubts about the effectiveness of this policy. The 1992 agreement has some built-in weaknesses and limitations. These problems include the difficulty of defining "commercially viable," and the presence of an "escape clause" that allows countries to proceed with a tied aid offer, despite objections by other participants, if that country claims that the project is in its national interest. Also, there are questions about the enforceability of the agreement because participation is voluntary and data are not confirmed or verified. Furthermore, even if a competitor's tied aid offer conforms to the rules of the agreement, it may still hurt U.S. exporters and U.S. economic interests. For example, the agreement still allows tied aid credits for a wide variety of capital goods, such as for large capital-intensive projects (railways or subway systems) with capital costs requiring longer-than-OECD arrangement terms.[8]

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[7]"Derogations" are cases in which the countries making the tied aid offers have proceeded with their offers, despite a decision by OECD agreement participants that the offers do not conform to the rules of the agreement.

[8]The OECD agreement includes guidelines for maximum repayment terms based on the category ("relatively rich," "intermediate" or "relatively poor") of the recipient country.

To deal with the issue of tied aid, the administration has recently proposed funding a $150-million aid fund to finance major capital projects overseas. The $150 million represents the subsidy component of the fund, which will support (under credit reform) $600 million in tied aid credits. The stated purpose of the capital projects aid fund is to combat other countries' use of tied aid. The Eximbank has been given the task of administering the fund, $50 million of which will come from the Eximbank's war chest, with the remaining $100 million coming from "proportional contributions" from the export promotion budgets of other TPCC agencies. But no criteria have been established for how the fund will be used.

During prior hearings, we stated that TPCC should identify the best industry and market candidates for trade promotion assistance as part of its methodology to establish priorities for federal trade promotion.[9] In so doing, the federal government would not be "picking winners and losers," but prudently setting priorities in order to ensure the best use of trade promotion funds. We believe it would be useful if the Eximbank were to follow a similar path in establishing criteria for using the new capital projects aid fund.

Well-developed criteria for using the tied aid fund are important because, as Eximbank officials have pointed out, there is a heavy

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[9]See Export Promotion: Initial Assessment of Governmentwide Strategic Plan (GAO/T-GGD-93-48, Sept. 29, 1993).

price tag on providing tied aid credits. This high price accounts, in part, for the Eximbank's past reluctance to use its war chest. The Eximbank has not exhausted the full amount of its authorized annual war chest funds in any year since the war chest's creation in 1986 and did not use the war chest at all in fiscal year 1989. Using war chest funds takes scarce resources away from regular export credit financing. Due to the larger grant component in tied aid credits, they are much more expensive than regular export credit transactions under the terms of the Federal Credit Reform Act of 1990 as it applies to the Eximbank's budget.

CREDIT REFORM

According to the Eximbank's mission statement, its goal is, in part, to facilitate export financing of U.S. goods and services "by absorbing reasonable credit risks that are beyond the current reach of the private sector." Eximbank programs cover commercial and political risks. Because the Eximbank often provides financing for markets that the private sector is reluctant to enter, these markets tend to be riskier. The Eximbank regularly assesses country risk to help it determine the maximum amount of financing exposure (debt payments due) it should have in a market.

Before fiscal year 1992, Congress enacted loan limitations for the Eximbank that determined the maximum amount of loans, guarantees, and insurance it could extend. However, this situation changed

with the passage of the Federal Credit Reform Act of 1990, which took effect at the beginning of fiscal year 1992. Under credit reform, the estimated total future costs of the Eximbank's annual transactions must be accounted for when the transactions are made, and are limited by the total amount appropriated for this activity.

With credit reform, when the Eximbank makes loans or guarantees for exports to "riskier" countries, such a decision costs the Eximbank more than credit activities for a less risky country. Consequently, credit activities for risky countries will have a greater impact than formerly on the Eximbank's ability to lend because credits to them take a bigger portion of that year's budget. For example, $1 billion in budget authority for the Eximbank may only support $2 billion in export loans, guarantees, and insurance for a very risky country. In comparison, the same $1 billion could support $10 billion in exports to a significantly less risky country.

Credit reform, in effect, increases congressional budgetary control over the Eximbank. Congress limits the maximum costs involved in potential transactions up front--during the budget process. However, until the Eximbank knows which countries will be borrowers under its program--and actual loans and guarantees are made--no one knows how much in exports a given authorized budget amount will actually support. To shed some light on this matter, the Eximbank has developed cost assumptions for the budget process to show the

combinations of credits (loans, guarantees, and insurance) and country risks possible within Eximbank budget constraints.

DELIVERY OF SERVICES

In view of the growing demand for export finance, delivering services to exporters has become an important issue for the Eximbank. Responding to this demand has been made more difficult by the recent reluctance of U.S. commercial banks to provide export finance, particularly to small- and medium-sized businesses. A key challenge facing government policymakers is how to broaden commercial bank participation in export finance.

The Eximbank's service delivery network is limited, consisting of about 400 employees in Washington, D.C. (including staff for the Eximbank's insurance operation), and 5 new regional offices. The Eximbank uses commercial banks and federal, state, and local agencies to make its services available to as many exporters as possible. Some of the Eximbank's efforts to expand the delivery of its services include making changes to increase commercial banks' participation in its programs, initiating a city/state program, and using regional offices.

Eximbank and Commercial Banks

Perhaps the biggest challenge facing Eximbank is encouraging greater participation by commercial banks in export finance. The Eximbank traditionally has relied on the commercial banking system as its principal means to deliver financing--especially to smaller companies--through its loan guarantee programs. Yet in recent years, the Eximbank's ability to reach exporters has been restrained because commercial banks have been cutting back on their international departments. Some large banks have consolidated their overseas operations and reduced their less profitable lines of business, such as financing smaller transactions. The TPCC's Trade Finance Working Group reported (based on a study conducted in 1991) that the supply of export finance "falls well short of demand," particularly pre-export financing for sellers. According to the report, businesses across a wide range of sectors reported difficulties and even loss of export sales because they were unable to get the necessary financing.

Although one of the Eximbank's main goals is to expand the network of commercial banks that want to participate in its programs, the Eximbank included only 348 banks (out of a total of approximately 11,000 commercial banks in the United States) in 37 states on its bank referral list in 1993 (a list of banks that have expressed an interest in doing business with the Eximbank). Nevertheless, this amount represents 20 more banks than appeared on the Eximbank's

1992 bank referral list. The Eximbank has made efforts to inform more bankers about its programs, and offers training for bankers and others involved in export finance, and 1-, 2-, and 4-day seminars for exporters and bankers. During these seminars, Eximbank officials present information on Eximbank programs and other export financing available through the government.

Further, the Eximbank has enhanced its guarantee programs to attract and retain commercial banks. In fiscal year 1992, the Eximbank increased the interest coverage on new medium-term and long-term guarantee authorizations to 100 percent.

The City/State Program

In 1987, the Eximbank initiated a major effort--the city/state program--to improve the delivery of its services. The city/state program is a partnership between the Eximbank and city and state export finance and development agencies that allows exporters to access Eximbank programs through these city and state agencies. Currently, state or city agencies in 26 locations participate in the program. The city/state program benefits the Eximbank because the city/state participants screen exporters, package loans, and provide exporters with information about Eximbank and other government programs. Common attributes of the more active locations include adequate state or local funding and committed

personnel with trade and finance expertise who serve as advocates for the less-experienced exporter.

However, the Eximbank faces some limitations with its city/state program: (1) the delivery of services varies between states in terms of outreach, existing networks, funds, and expertise; (2) the city and state participants need training and experience to use Eximbank programs and determine how best to meet exporters' needs; and (3) the state and local agencies are subject to changing administration priorities and budget constraints.

Nevertheless, the city/state program is an encouraging example of how federal and state or local agencies can work together to assist U.S. exporters. The TPCC plan recommended that the city/state program be expanded.

Eximbank Regional Offices

In 1992, the Eximbank took over the five regional offices (New York, Chicago, Miami, Los Angeles, and Houston) that had previously been administered by the Foreign Credit Insurance Association (FCIA) Management Company to market Eximbank insurance programs.[10] The Eximbank is now using these offices to market all of its

[10]The Foreign Credit Insurance Association Management Company administered the Eximbank's export credit insurance program until September 1992, when the Eximbank cancelled its contract with the FCIA Management Company and began administering its insurance program in-house.

programs--loans, guarantees, and insurance. The Eximbank has no overseas offices.

An interesting comparison can be made between the Eximbank's network and the networks of U.S. competitors' export credit agencies. For example, France offers a network of 22 domestic offices where exporters can obtain export finance assistance, but has no overseas offices. Japan's Export-Import Bank has 2 domestic offices and an overseas network with staff in 18 locations, including offices in New York City and Washington, D.C.

In order to improve the federal government's delivery of its export services, the TPCC plan proposed establishing one-stop shops to provide local export communities with a single point of contact for all federal export promotion and finance programs. The one-stop shops will primarily integrate representatives of the Department of Commerce, SBA, and/or the Eximbank. The first one-stop shops will be established in Baltimore, Chicago, Los Angeles, and Miami.

COMPETITIVENESS OF EXIMBANK SERVICES

In accordance with a congressional mandate, the Eximbank conducts an annual survey of its customers--bankers and exporters--who have had recent experience with Eximbank programs. The Eximbank then reports to Congress on the survey results. In a survey covering 1992, the Eximbank asked survey respondents to measure (1) the

competitiveness of Eximbank support relative to the support offered by six competitors'[11] export credit agencies and (2) the success of the Eximbank in meeting the needs of the U.S. exporting community. Some discretion is necessary in reading the survey results pertaining to comparisons between the Eximbank and competitors' export credit agencies. As the Eximbank reported, many bankers and exporters are not really knowledgeable about competitors' programs, so their responses are often based on perceptions.

The key results of the survey were the following:

(1) Bankers and exporters who reported being familiar with the practices of foreign export credit agencies perceived France and Japan as having the most competitive programs overall. They considered U.S. (Eximbank) programs as being the least competitive in four of the six categories polled, including project risk support, local cost support, foreign content requirements, and tied aid availability.

(2) The chief complaint of exporters and bankers was the Eximbank's lengthy case-processing time. Almost half of the banks reported losing export transactions because of the Eximbank's "sluggishness." Another problem cited by exporters--particularly smaller businesses--was Eximbank paperwork requirements. One respondent noted that the

[11]France, Japan, Italy, Canada, Germany, and the United Kingdom.

16

> financial statements required by the Eximbank for transactions under $1 million were "excessive and prohibitively expensive for small businesses to produce."

Identifying the problem areas is the first step in improving quality, and the Eximbank has done so by conducting its survey. With limited resources and serious budget constraints, meeting the growing needs of its customers will require planning and innovation on the Eximbank's part.

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Mr. Chairman, this concludes my prepared statement. I will be happy to try to answer any questions you or other Members of the Subcommittee may have.

RELATED GAO PRODUCTS

Export Promotion: Governmentwide Plan Contributes to Improvements (GAO/T-GGD-94-35, Oct. 26, 1993).

Export Promotion: Initial Assessment of Governmentwide Strategic Plan (GAO/T-GGD-93-48, Sept. 29, 1993).

Export Promotion: Governmentwide Strategy Needed for Federal Programs (GAO/T-GGD-93-7, Mar. 15, 1993).

Export Finance: The Role of the U.S. Export-Import Bank (GAO/GGD-93-39, Dec. 23, 1992).

Transition Series: International Trade Issues (GAO/OCG-93-11TR, Dec. 1992).

The U.S. Export-Import Bank: The Bank Provides Direct and Indirect Assistance to Small Businesses (GAO/GGD-92-105, Aug. 21, 1992).

Export Promotion: A Comparison of Programs in Five Industrialized Nations (GAO/GGD-92-97, June 22, 1992).

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18

Testimony of

Peggy A. Houlihan
President
Coalition for Employment through Exports (CEE)

before the

Subcommittee on International Development,
Finance, Trade and Monetary Policy

Committee on Banking, Finance and Urban Affairs

U. S. House of Representatives
Washington, DC

November 3, 1993

Executive Summary
Testimony of Peggy A. Houlihan
President
Coalition for Employment through Exports (CEE)
before the
Subcommittee on International Development, Finance, Trade and Monetary Policy
Committee on Banking, Finance and Urban Affairs
U S. House of Representatives
Washington, DC
November 3, 1993

Eximbank Funding:

The Export-Import Bank (Eximbank) continues to play a critical role in financing exports, as demand is expected to **increase to record levels in Fiscal Years (FY) 1994 and 1995**.

In FY '93, Eximbank reached $15 billion - the highest funding level in its 59 year history, supporting close to 300,000 American jobs. **This year, Eximbank has $1 billion in budget authority which could support up to $18 - $20 billion in Eximbank lending this year**. This increase could result in 100,000 additional U.S. jobs. CEE's preliminary estimates indicate that demand for Eximbank financing will continue to increase in FY '95.

Given a **high leverage factor of about 1:20, CEE believes that Eximbank is one of the most cost effective U.S. export promotion programs**.

War Chest, Tied Aid:

CEE believes that the **Helsinki Agreement on tied aid places American companies at a significant disadvantage vis-a-vis our foreign competitors** Projects worth billions of dollars fall outside the scope of it, including "grandfathered" projects and "untied aid." Some countries are finding new and creative ways of getting around the Agreement

During the past two years, Eximbank policy has stressed the use of the War Chest as an enforcement tool to ensure that other countries comply with the Agreement. Thus, **Eximbank used only $32 million of its War Chest funds - far less than the $200 million of funding available** each year in FY '92 and FY '93.

$171 million is now available in the War Chest funds ($121 million in unused War Chest authority from FY '93, plus $50 million in FY '94 funds). **CEE urges Eximbank to move quickly this year to use the War Chest in a pro-active, aggressive manner.**

International Competition and Eximbank Programs:

U.S. companies face fierce competition in world markets. Exporters have expressed **concerns that Eximbank may be inclined in the future to provide less financing in higher risk markets** - particularly to conserve its budget resources. **Eximbank must operate aggressively and responsively** to meet foreign competition, particularly in **emerging markets in the Newly Independent States and Eastern Europe**, and in **expanding markets in Asia and Latin America**.

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Testimony of Peggy A. Houlihan
President
Coalition for Employment through Exports (CEE)

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Subcommittee on International Development,
Finance, Trade and Monetary Policy

Committee on Banking, Finance and Urban Affairs

U S. House of Representatives
Washington, DC

November 3, 1993

Mr. Chairman and Members of the Subcommittee: My name is Peggy Houlihan and I am President of the Coalition for Employment through Exports (CEE). A broad-based coalition of American exporters, labor unions, and state governors, CEE was organized in 1981 to promote U.S. exports and employment (a list of members is attached). Since then, CEE has pioneered efforts to increase awareness of this linkage and to promote competitive export finance programs to help U.S. companies compete in international markets.

The Coalition appreciates your interest, Mr. Chairman, and that of the Subcommittee, in exports and the Export-Import Bank of the U.S. (Eximbank). Last year, CEE was a strong advocate of the Eximbank reauthorization legislation passed by Congress. The legislation addresses the importance of exports and their benefits to the U.S. economy and employment. I appreciate the opportunity to appear before the Subcommittee to discuss the Coalition's views and recommendations on the importance of the Export-Import Bank to U.S. exports and jobs, the Eximbank budget, the Bank's programs, and the use of the War Chest.

Importance of U.S. Exports

U.S. exports continue to create and maintain jobs for American workers. In the manufacturing sector alone, **exports support one out of every six American jobs**. The U.S. Department of Commerce estimates that **every $1 billion in U.S. exports supports close to 20,000 American jobs**. Exports also create a ripple effect in the American economy, resulting in follow-on sales, replacement parts, and /or related services, the value of which far exceeds the initial export.

Commerce Secretary Ron Brown and Eximbank President and Chairman Ken Brody should be commended for their tireless efforts toward development of a U.S. National Export Strategy. Through their hard work and leadership within the Trade Promotion Coordinating Committee (TPCC), the **Clinton Administration plan includes export finance and other recommendations that will help promote American exports and jobs**. CEE will continue to work closely with the Administration and the TPCC on the implementation of the export finance recommendations.

Increasing Demand for Eximbank Financing

The Export-Import Bank (Eximbank) continues to play a critical role in financing exports, as demand is expected to increase to record levels in Fiscal Years (FY) 1994 and 1995. CEE believes that adequate funding is key to the Bank's ability to meet this demand.

In FY '93, Eximbank reached $15 billion - the highest funding level in its 59 year history. This surpassed the 1981 level of $12.8 billion. **Our estimates indicate that Eximbank lending**

levels could reach $18 - $20 billion in FY '94. Attached is a CEE chart showing Eximbank's actual program activity levels since 1981, as well as projected use in FY '94. (These levels are conservative, since they take into account budget authority only - not the total level of exports supported by Eximbank programs. Actual exports are often 10 - 15 percent higher than budget levels.)

In FY '93, Eximbank programs supported close to 300,000 American jobs. Our projections indicate that a **$5 billion lending increase in FY '94 could result in 100,000 additional U.S. jobs**. A second chart shows U.S. employment estimates based on Eximbank lending levels.

CEE believes that this year Congress provided Eximbank with sufficient resources to meet demand. The Coalition is encouraged by the strong congressional support for funding the Bank, particularly in view of difficult budget constraints this year. **This year, Eximbank has $1 billion in budget authority** ($700 million plus $300 million for programs in the Newly Independent States of the former Soviet Union). We believe this **$1 billion level could support up to $18 - $20 billion in Eximbank lending this year**. It is important to note that there is no ceiling imposed this year on program activity levels. Given a high leverage factor of about 1:20, CEE believes that **Eximbank is one of the most cost effective export promotion programs available**.

CEE recently completed a survey of its membership to help develop our budget estimates for FY '95. While we are still in the process of determining recommendations for next year, our **preliminary estimates indicate that demand for Eximbank financing is strong and continues to grow**. Next year our companies expect Eximbank support for U.S. exports will be needed in the

following regions: Asia/Pacific (31 percent), Latin America (23 percent), the Newly Independent States (16 percent), Middle East (13 percent), Africa (9 percent) and Eastern Europe and the Baltics (8 percent).

Eximbank War Chest, Tied Aid

Two years ago, the United States declared victory on tied aid when it signed the Helsinki agreement. The government decided to use the War Chest only to "police" the agreement when violations occurred. **During the past two years, Eximbank used only $32 million for tied aid** ($5 million in FY '92 and $27 million in FY '93) **- far less than the $200 million of funding available in each of those fiscal years.**

CEE believes that the Helsinki Agreement places American companies at a significant disadvantage vis-a-vis our foreign competitors. Projects worth billions of dollars fall outside the scope of it. Under the agreement, it is still all right for the Japanese to use "untied aid" - even if it has the same effect of tied aid. "Grandfathering provisions" permit many major development projects to be excluded from the agreement. And now, countries are finding new and creative ways of getting around the rules. And that is just for starters! Now, for American companies who want to bid on projects where foreign aid is allowed under international rules, the cruel reality is that the United States has dwindling foreign aid resources available for this purpose.

U.S. products and services are among the best in the world. Our exporters would like to compete on traditional terms, such as price, quality, delivery and service. Unfortunately, in the real world, subsidized development financing is common despite international efforts to limit or stop it.

Recently a *Washington Post* editorial indicated that there has been real progress toward getting other countries to stop these subsidies. But U.S. companies competing on the front lines of the international arena don't agree. From their perspective, not much has changed in the competitive world despite 15 years of international negotiations on mixed credits, tied aid, and related complex issues.

CEE is encouraged by the recent TPCC decision to use $150 million in tied aid in a pro-active manner in FY '95 ($50 million from Eximbank's '95 budget and $100 million from other agencies). We welcome this initiative. In the meantime, CEE urges **Eximbank to move quickly now - this year - to use the War Chest in a pro-active, aggressive manner.** This would be consistent with the strong mandate from Congress last year included in the Bank's reauthorization legislation. **Funding of $171 million is now available in War Chest funds in this fiscal year** ($121 million in unused War Chest authority from FY '93, plus $50 million in FY '94 funds).

International Competition and Eximbank Policies

Eximbank must operate aggressively and responsively to meet foreign competition, particularly in **strategic, emerging markets in the Newly Independent States and Eastern Europe**, and in **expanding markets in Asia and Latin America**.

U.S. companies face fierce competition in world markets. The European and Japanese governments play key roles in providing export finance and other means of support to their exporters. These governments pursue clearly established goals for the purpose of ensuring market share for their respective export industries - particularly for strategic markets. In today's

environment, there are new business opportunities in the Newly Independent States, Eastern Europe and the Baltics. In addition, infrastructure needs in the public and private sectors continue to increase in Latin America, the Middle East, and in Asia. The U.S Eximbank is an important mechanism by which our government can level the playing field in support of American exporters.

Exporters have expressed concerns that Eximbank may be inclined in the future to provide less financing in higher risk markets - particularly to conserve its budget resources. This concern has come up, in particular, with respect to Russia, where the Bank is moving away from sovereign risk toward project finance and the oil and gas framework agreement. Eximbank must find a reasonable balance between its mandates of taking into account the likelihood of repayment and providing competitive financing for exports. **Eximbank must operate aggressively and responsively** to meet foreign competition, particularly in **emerging markets in the Newly Independent States and Eastern Europe,** and in **expanding markets in Asia and Latin America.**

In conclusion, Mr. Chairman, the Coalition looks forward to working with you and the Subcommittee in the future.

Attachments:

- Membership List
- CEE Chart on Eximbank Actual Program Use: FY '80 - FY '93
- CEE Chart on U.S. Employment Estimates Based on Eximbank Lending: FY '86 - FY '94

CEE Member Companies

AT&T
AlliedSignal
American Textile Machinery Association
Arkel International, Inc.
Association for Manufacturing Technology
Asea Brown Boveri
Bechtel Group, Inc.
The Boeing Company
Brown & Root, Inc.
Caterpillar Inc.
Chrysler Corporation
Digital Equipment Corporation
Dresser Industries, Inc.
Dresser-Rand
Enron Corporation
Fluor Corporation
GTE Corporation
General Electric Company
General Railway Signal Corporation
Ingersoll-Rand Company
Motorola, Inc.
PACCAR, Inc.
Private Export Funding Corporation
Rockwell International
Scientific-Atlanta, Inc.
Sea-Land Service, Inc.
United Technologies Corporation
Varian
Westinghouse Electric Corporation

CEE Affiliate Supporters

Labor Organizations

American Federation of Government Employees
Building and Construction Trades Department, AFL-CIO
Coalition of Labor Union Women
Communications Workers of America
Council of Engineers and Scientists Organizations
International Brotherhood of Electrical Workers
International Ladies Garment Workers Union
International Union of Electrical, Radio and Machine Workers
International Union of Operating Engineers
Maritime Trades Department, AFL-CIO
United Association of Plumbers and Pipefitters
United Automobile, Aerospace and Agricultural Implement Workers of America
United Brotherhood of Carpenters and Joiners of America
United Steel Workers of America

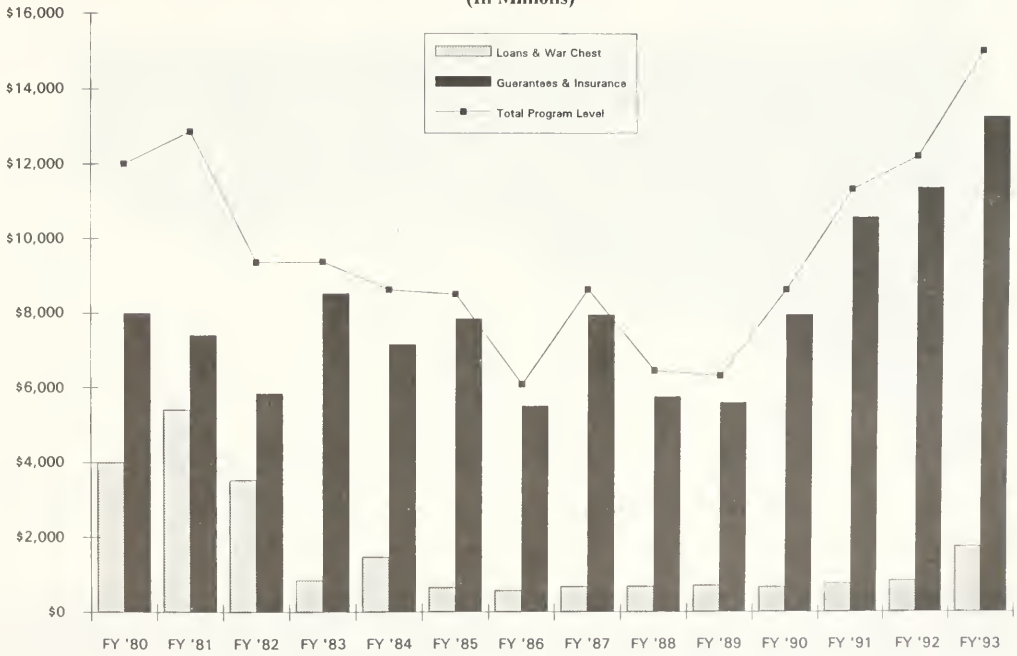
Government Members

B. Evan Bayh III, Governor of Indiana
Mario M. Cuomo, Governor of New York
Jim Edgar, Governor of Illinois
James Florio, Governor of New Jersey
Mike Lowry, Governor of Washington
Marc Racicot, Govenor of Montana
Ann W. Richards, Governor of Texas
William D. Schaefer, Governor of Maryland
Fife Symington, Governor of Arizona
Tommy G. Thompson, Governor of Wisconsin
George V. Voinovich, Governor of Ohio
Pete Wilson, Governor of California

EXIMBANK PROGRAMS

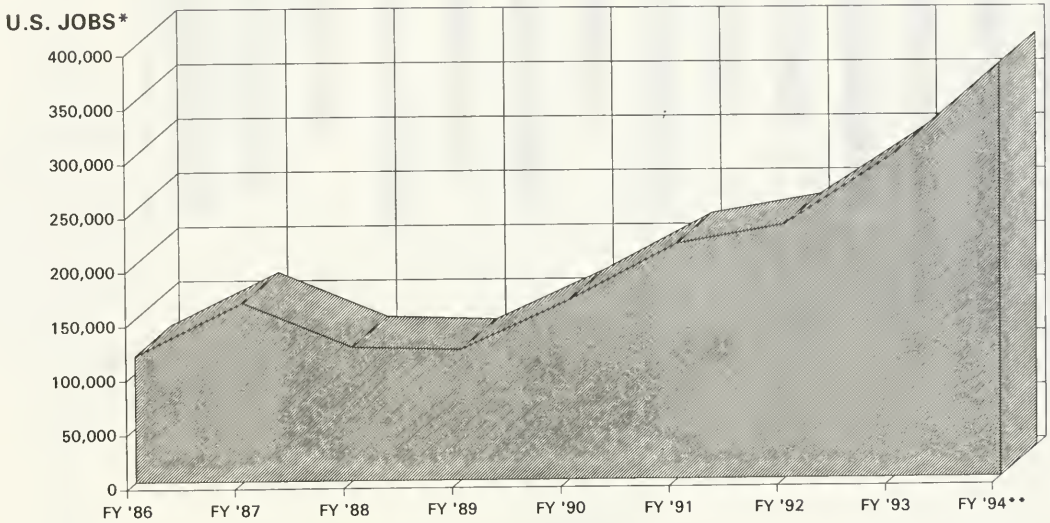
Actual Use: FY '80 - FY '93

(In Millions)



Coalition for Employment through Exports, November 1993

U.S. EMPLOYMENT ESTIMATES
Eximbank Lending (FY '86 - FY '94)



* Based on U.S. Dept. of Commerce Estimates - $1 billion of exports equals 19,100 jobs

**Forecast-$20 billion

Coalition for Employment through Exports, November 1993

NAM National Association of Manufacturers

MANUFACTURING MAKES AMERICA STRONG

STATEMENT OF

HOWARD LEWIS III
VICE PRESIDENT, INTERNATIONAL ECONOMIC AFFAIRS
NATIONAL ASSOCIATION OF MANUFACTURERS

ON
THE IMPORTANCE OF EXPORTS TO U.S. ECONOMY

BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT
COMMITTEE ON BANKING
U.S. HOUSE OF REPRESENTATIVES

NOVEMBER 3, 1993

1331 Pennsylvania Avenue NW, Suite 500 - North Tower, Washington, DC 20004-1790
202-637-3000 • Fax (202) 637-3182

Manufacturing: The Key to Economic Growth

- ✓ U.S. manufacturing's direct share of the Gross Domestic Product (GDP) has averaged more than 21 percent since World War II. And nearly half of economic activity depends indirectly on manufacturing.

- ✓ U.S. manufacturing productivity growth averaged 3 percent during the 1980s compared with almost zero growth in the rest of the U.S. economy.

- ✓ U.S. manufacturing exports have been the *single main source of strength* in the current economy — contributing 30 percent to 40 percent of the nation's economic growth since 1987.

- ✓ Each $1 billion of exports creates 20,000 new jobs. Since 1985, exports have saved 4 million jobs in U.S. communities.

- ✓ Manufacturing jobs on average pay 15 percent more than jobs elsewhere in the economy.

- ✓ Manufacturing provides the bulk of technological advances and innovation for the economy.

STATEMENT OF

HOWARD LEWIS III
VICE PRESIDENT, INTERNATIONAL ECONOMIC AFFAIRS
NATIONAL ASSOCIATION OF MANUFACTURERS

ON
THE IMPORTANCE OF EXPORTS TO U.S. ECONOMY

BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT
COMMITTEE ON BANKING
U.S. HOUSE OF REPRESENTATIVES

NOVEMBER 3, 1993

Mr. Chairman, my name is Howard Lewis. I am vice president for International Economic Affairs at the National Association of Manufacturers (NAM). I am pleased to be here today to testify on the importance of exports to the U.S. economy.

I am submitting as part of my testimony a fairly lengthy report on export financing and the Export-Import Bank. This Subcommittee is responsible for these issues and I wanted to make sure that NAM's 1993 report was available for the official record of these hearings. We will be publishing a similar report early next year. I will make sure that all the members of the Subcommittee receive copies.

The issue of export financing, of course, is related to the basic question which I was asked to address today: What is the importance of exports to the U.S. economy? How we answer this question directly affects the types of policies that will be adopted in regard to the Export-Import Bank as well as numerous other export-related policies.

Let me give you one very simple way to think about why exports are important. To strengthen the U.S. economy, this country is going to have to consume less, spend less on

government, and import less; and, we are going to have to save more, invest more, and export more. Of all the variables in the preceding policy "equation," exporting is probably the least understood or appreciated.

I would illustrate this point by noting that it was only two years ago that the U.S. Government actually came up with a basic profile of U.S. exporters. Despite the importance of exporting, no one in the private or public sectors really had a very good idea of who U.S. exporters were or what they were doing. How can you develop sensible policies on anything if you don't know what's happening?

We are now beginning to develop these data. I would call the Subcommittee's attention to a 1993 Commerce Department study, *A Profile of United States Exporters*.

In the short time I have for my oral testimony today, I would like to summarize why exports are important to the U.S. economy:

Jobs: The first reason centers on jobs. Slightly over 7 million Americans today depend on exports. Equally important, these are high-paying jobs. A study done by the United States Trade Representative (USTR) in 1991 found that export-related wages were 17 percent higher than average industrial wages.

I would also call the Subcommittee's attention to the goal set out in the Clinton Administration's recent plan for a national export strategy. With the proper set of policy initiative, the Administration believes that U.S. exports can reach $1 trillion by the year 2000. That will mean 6 million new jobs in this country.

So, exports are important because they produce high-paying jobs.

Economic Growth: A second reason is that they create economic growth. At the macroeconomic level, export expansion has accounted for roughly 45 percent of the real

economic growth in the United States since 1986. The 1991 recession would have been about twice as bad as it was had it not been for export growth. But macroeconomic numbers hardly tell the whole story.

At the microeconomic level, exports are a driving force in many of our most competitive industries. For example, exports account for nearly 80 percent of total sales in the petroleum equipment industry, 50 percent in commercial aircraft, 40 percent in semiconductors, 35 percent in computers, 30 percent in analytical instruments, and 30 percent in machine tools. It is no exaggeration to say that many U.S. industries could not survive without exports.

Industrial Competitiveness: The individual companies that make up the industrial sectors I have just mentioned, as well as many other sectors, find that exporting helps them maintain their competitiveness in at least three different ways:

- First, it allows fixed costs to be spread out over a much larger customer base. At a time when a new semiconductor manufacturing facility, for example, can cost over $1 billion, the need to spread out overhead costs is not just a luxury it is a necessity.
- Second, companies find that exporting helps smooth out business cycles. Many companies found this to be the case in 1991 recession, as I have already pointed out. The downturn in the U.S. economy was partially offset by increased growth overseas, especially in the developing world.
- Third, many firms find that exporting helps them keep track of what their foreign competition is doing. It allows them to make adjustments before this competition lands on their domestic doorstep. Exports allow U.S. firms to go on the offensive.

Ripple Effect: In addition to jobs, economic growth, and industrial competitiveness, exports are important because of the ripple effect they have on the U.S. economy. One of the things we have learned from the Commerce Department study mentioned above is how few firms account for the bulk of our exports -- 50 companies are responsible for 43 percent of total exports and 100 firms for 51 percent.

Many people look at these statistics and draw the conclusion that only a few U.S. companies have anything at stake in who wins or loses in world export markets. Nothing could be farther from the truth, and I can illustrate why with some specific examples:

- When Caterpillar Tractor exports a tractor, 183 suppliers in 28 states (mostly in the Midwest) have business and jobs at stake.
- When AT&T exports a digital switch, nearly 200 suppliers in 28 states will receive orders from this sale.
- When a small Louisiana firm, Arkel International, wins a contract in Kenya, nearly 50 suppliers in 13 states receive more business.
- And when Boeing exports a commercial jet, 5000 companies across the country benefit from this sale.

Attached to my testimony are maps and a table which contain further details about the preceding examples.

These four examples illustrate that even today far more American firms have a real stake in export markets than is generally recognized. When export sales are made, thousands of suppliers in every state see an increase in their business, which means more U.S. jobs and job security.

The stake which this network of "invisible exporters" has in U.S. export success relates not just to the original sale but to follow-on business involving spare parts and

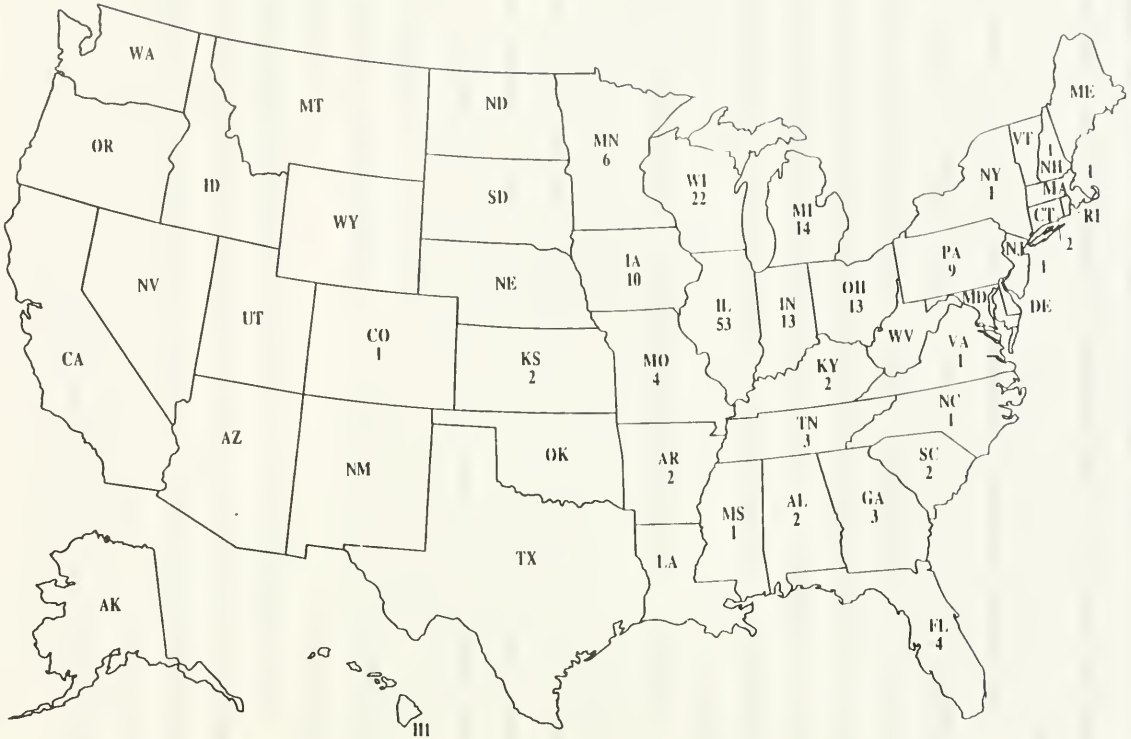
service. As a rule-of-thumb, over the 15-20 year life span of many of the capital projects or products just noted, follow-on business will equal 10-15 percent of the original sale each year.

So, when the Export-Import Bank helps an American engineering firm in Irvine, California, Fluor Daniel, win a contract to build a petrochemical plant in Indonesia, a valve manufacturer in Norwood, Massachusetts is likely to benefit from this transaction not only from the initial sale but for the next 15-20 years as the original equipment in that plant is replaced and upgraded. This follow-on activity is probably the least understood or appreciated aspect of U.S. exporting today, but it is critical to overall U.S. export performance.

Over the last few minutes, I hope I have illustrated to the Subcommittee why exports are important to the U.S. economy. I would like to close by noting that we are at a critical juncture in terms of U.S. export policies. Between 1986-1992, exports grew rapidly and everyone wanted to jump on the export bandwagon. This past year, export growth has slowed significantly. If this country followed past practice, we would do little, if anything, to continue to implement a national export strategy and wait for macroeconomic forces to straighten things out. Such complacency about our export-related policies, however, is no longer acceptable.

It is for this reason that NAM sees the Clinton Administration's national export strategy as not only timely but very important. It is a step toward developing a strategy to provide appropriate support to U.S. firms in export markets around the world. We applaud the Administration for taking this initiative and look forward to working with the Administration and Congress in implementing this plan.

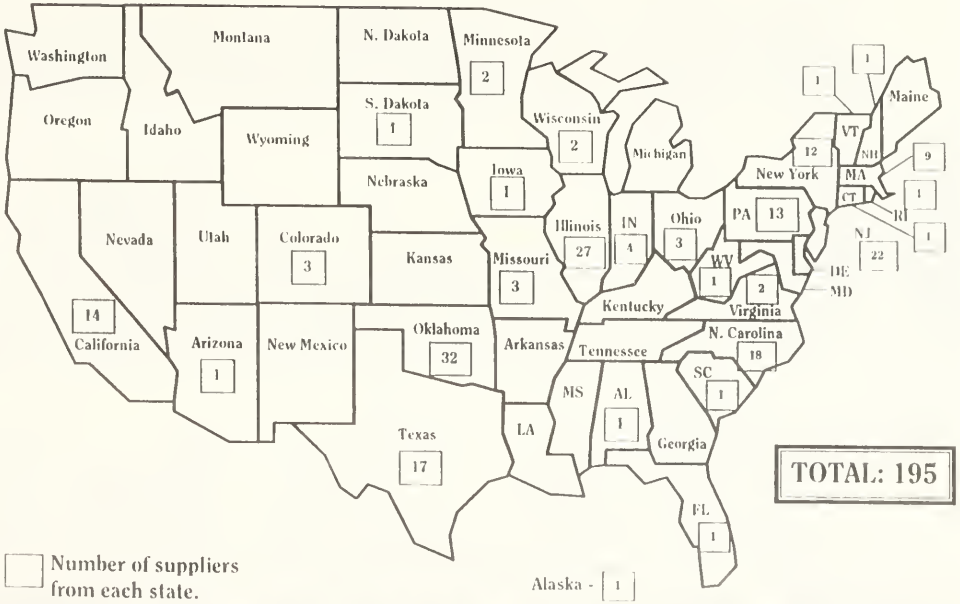
Suppliers for Caterpillar D8N Track-Type Tractor



Total Suppliers:183

AT&T Digital Switch Product

Total Suppliers



ARKEL INTERNATIONAL

PROBABLE SUPPLIERS
NZOIA SUGAR FACTORY EXPANSION
PHASE I AND II

Equipment Item	Supplier	City	State
1. Grapple Cranes	Kranco, Inc.	Houston	TX
2. Boiler	Alpha Boilers	Norcross	GA
3. Centrifugals	Western States	Hamilton	Ohio
4. 3000 KW Turbine Genny	Dresser-Rand	Wellsville	NY
5. L.J. Heater, Evaporator, C.J. Heater, Vacuum Pans	Honiron	Jeanerette	LA
6. 250 Tractor, Cane Table, Cane Grabs, Cane Loader	Cameco	Thibodeaux	LA
7. Pan Receiver, Condensers, Separators, Magma Pumps	Nadler, Inc.	Plaquemine	LA
8. Clarifier/Vcm Pump/Flt.	Dorr-Oliver	Stamford	CN
9. Mill, Intercarrier and Spur Gear Set	Fulton Iron Works	St. Louis	MI
10. Bagasse Conveyor Chain	R.J. Tricon	New Orleans	LA
11. Evaporator Tubes	Tull Metals	Norcross	GA
12. Mill and Shredder Drive Gearing	Philadelphia Gear	King of Prussia	PA
13. Shredder	Gruendler	Durand	MI
14. Stm Turbine Dr - Mill	Dresser-Rand	Wellsville	NY
15. Stm Turbine Dr - Shr	Dresser-Rand	Wellsville	NY
16. Heater Tubes	Tull Metals	Norcross	GA
17. Agricultural Equipment	Vanguard	Miami	FL
18. Bagasse Carrier St Sppt	Capital Steel	Baton Rouge	LA
19. B.C. Steel	Capital Steel	Baton Rouge	LA
20. Grounding Equipment	Graybar	Baton Rouge	LA
21. 250 Hp Tractors	J.I. Case	Racine	WI
22. Rubber Blt/Intercarrier	A&F Texas	Houston	TX
23. Air Preheaters	I.T.T. - E.L.I.	Wellsville	NY
24. Cane Trailers	Inter-American	Miami	FL
25. Pumps	Goulds	Ashland	PA
26. Instru Safety Valves	Indus. Prod. & Serv.	Baton Rouge	LA
27. Instru Solenoid Va.	Hebert Valve & Contr.	Baton Rouge	LA
28. Control Transformer	A&F Texas	Houston	TX
29. Piping Materials	International Piping	Port Allen	LA
30. Instrument Loops	Control Systems	Baton Rouge	LA
31. Piping Materials	Omega Indus. Supply	Baton Rouge	LA
32. Sight Flow Ind.	Creole Engineering	Baton Rouge	LA
33. Crane Rail Clamps, Pad	Gantrex Corporation	Cleveland	Ohio
34. Crane Rails	L.B. Foster Co.	Houston	TX
35. 315V Switchgear & MCC's	General Electric Co.	Raleigh	NC
36. Final Molasses Pumps	Nadler	Plaquemine	LA
37. Lab Supplies	Bartlett Chemical	Houston	TX
38. Safety Relief Valves	Groth Corporation	Geismar	LA
39. Cush Cush Screen	Ferguson		
40. Bearing Cooling Tower	Midwest Cooling Tower	Grosse Tete	LA
41. Pinch Valve	Kirkwood Co.	Metairie	LA
42. Insulation Materials	Distribution Intn'l	Houston	TX

ARKEL INTERNATIONAL

PROBABLE SUPPLIERS (continued)

Equipment Item	Supplier	City	State
43. HS speed gear & pinion	Foote Jones	Chicago	IL
44. C.S.Plate for Vapor Pipe	O'Neal Steele	Lafayette	LA
45. Sight Glasses	Breard Gardener	Baton Rouge	LA
46. Bagging Line	Grain Machinery		
47. ID Fan Turbine Parts	Elliott	Jeanette	PA

NOTE:

The above is only a partial listing of all the suppliers utilized on the Nzoia Phase I project. This list was formulated to indicate the number of states involved in supplying equipment and materials for this project.

Boeing Contracts with All U.S. Suppliers[1], 1987-91

Yearly averages

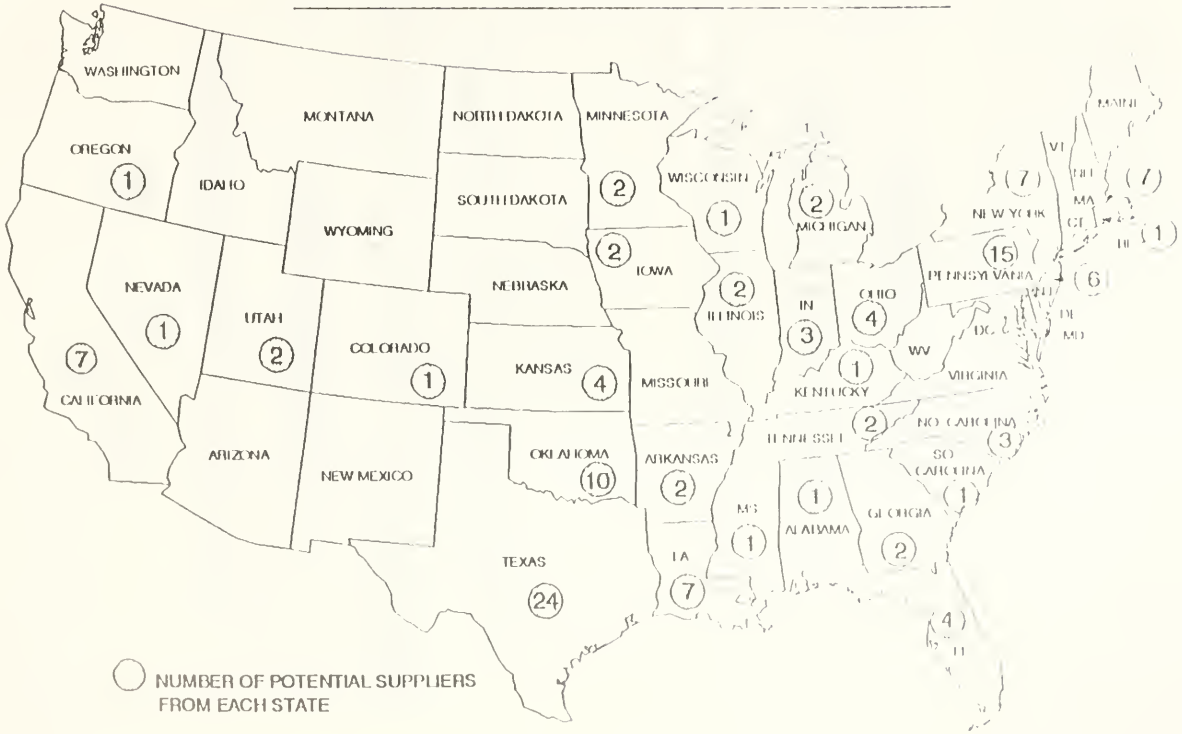
Over the last five years, Boeing Commercial Airplane Group spent an average of $10 billion per year on goods and services produced by suppliers throughout the United States. In 1991, Boeing had over 5,000 such suppliers.

[1] Contracts with Boeing Commercial Airplane Group Material Division only

FLUOR DANIEL

PROBABLE SUPPLIERS

PERTAMINA CILACAP DEBOTTLENECKING PROJECT



Statement by

Darin P. Narayana

Executive Vice President

Norwest Bank Minnesota, N.A.

before the

House Banking Subcommittee on

International Development, Finance, Trade

& Monetary Policy

U.S. House of Representatives

November 3, 1993

Mr. Chairman and members of the Committee, my name is Darin Narayana and I am Executive Vice President of Norwest Bank Minnesota I am pleased to have the opportunity today to appear on behalf of the Bankers Association for Foreign Trade ("BAFT") of which I am the President.

As you know, BAFT's membership comprises virtually all U.S. banks that are actively engaged in international banking or trade finance activities. Since BAFT's founding in 1921, trade finance has been the keystone of BAFT member banks international activities. Even so, trade finance has never been more important than now-not only to our member banks, but more importantly, for the U.S. economy. Increased exports are essential if there is to be meaningful growth for the U.S. economy and for international trade. Because of BAFT's commitment to expanded world trade, I would like today to express our strong support for the Administration's current efforts, which if they are successful, will contribute significantly to that goal. These are (1) expanded funding and operational strengthening of the Export-Import Bank, (2) ratification of the North American Free Trade Agreement (NAFTA), (3) successful conclusion and subsequent Congressional ratification of a new GATT Agreement, and (4) the centralization and coordination of the export activities of all U.S. government agencies as outlined by Secretary Brown and Chairman Brody in the recently released report of the Trade Promotion Coordinating Committee (TPCC).

Although the private banking sector remains the central element in providing the trade finance required to allow U.S. exporters to sell their products abroad, these efforts alone cannot sustain the needs of U.S. industry, agriculture and service companies. Eximbank continues to play a critical role by offering loans, guarantees and insurance in support of U.S. exports. By means of these programs, Eximbank assumes certain risks which the private sector cannot assume and also provides financing under terms which are competitive with financing offered by foreign government export finance agencies.

I am pleased to call attention to the fact that in recent months there has been a remarkable growth of U.S. exports, especially on the part of small and medium-sized companies, and that this development has been facilitated by increased trade finance support from the U.S. banking community and the strengthened activities of Eximbank.

BAFT and its member banks have met frequently in recent months with Secretary Brown, Chairman Brody and other officials of Eximbank, and the Department of Commerce to discuss ways in which to expand the cooperation of the government and private sector with respect to trade finance. We have been pleased that both Eximbank and the Department of Commerce have been responsive to our suggestions.

In June of this year BAFT, together with the Association of Reserve City Bankers (ARCB), submitted reform recommendations to Eximbank. These covered five areas of concern to the membership of both organizations, which I would like to outline:

1) Standardization of Legal Documentation: There is wide agreement that greater standardization of legal documentation would significantly speed Eximbank's delivery of its programs, especially to smaller and mid-size companies involved in fairly straightforward transactions.

2) Small Business Support: BAFT made two recommendations. First, Eximbank's Working Capital Guarantee Program needs to be simplified and made more consistent with commercial lending standards to middle-market and smaller business. The requirements for the Working Capital Guarantee are, in many cases unnecessary and unduly onerous. Second, Eximbank needs to build more flexibility into its Working Capital Guarantee Program to accommodate banks' willingness to assume different levels of risk for different customers.

3) Claims and Recoveries: Many of BAFT's members have the perception that Eximbank is placing too much emphasis on technical compliance in paying

claims. While this perception may not be wholly justified, it nonetheless mitigates the willingness of some banks to participate in Eximbank programs.

4) Contract Administration: In this area, we believe the most important change that Eximbank could undertake is the delegation to commercial banks of the authority to approve final documentation. One approach would be to delegate such authority to selected banks, subject to periodic audits of their performance by Eximbank.

5) Personnel Development: BAFT would be interested in establishing an exchange program between Eximbank and commercial lenders. We believe this would promote greater understanding among Eximbank and commercial banks' staffs, and reduce many of the problems that frequently arise between the private and government sectors concerning the promotion of U.S. exports and the role of banks in financing such exports.

In addition to these recommendations, the banking community hopes that Eximbank will make aggressive use of its ability to grant "Delegated Authority" to the banks. Among the recommendations made in the recently released report of the Trade Promotion Coordinating Committee (TPCC) were a call for more public-private partnerships and the use of "multipliers." BAFT believes that increased Delegated Authority to the commercial banks by

Eximbank will reduce processing and approval time for applications, eliminate unnecessary paperwork, and greatly improve Eximbank's overall reach into the exporting community, and would almost certainly result in enhanced trade finance services to the American exporting community. Toward this end, we have been working closely with Mr. Brody's office to assist in developing a workable and efficient program.

In conclusion, Mr. Chairman, BAFT believes Eximbank should expand it's role through innovations and new initiatives that can augment the banking community's efforts to provide increased trade finance services to the U.S. exporters.

STATEMENT OF ALFRED C. HOLDEN, ASSOCIATE PROFESSOR OF MARKETING
FORDHAM UNIVERSITY

BEFORE THE SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT, FINANCE, TRADE AND MONETARY AFFAIRS
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

NOVEMBER 3, 1993

Mr. Chairman, my name is Alfred C. Holden. I am Associate Professor of Marketing in the Graduate School of Business Administration at Fordham University. In my academic research, consulting activity, and previous business management responsibility, I analyze the international marketing environment, including intensification of export-finance competition. Clearly, this is an era when several U.S. export sectors have fallen behind competitors from other major industrial (G-7) nations and even some aggressive developing countries (LDCs).

In these circumstances, it is urgent to build upon this nation's strengths by assuring capacity and determination of the Export-Import Bank of the United States (Eximbank) to service our export community under the loan, guarantee, and insurance programs. Some Eximbank policies are quite good, and the Clinton Administration is saying the right thing. But the global competitive environment increasingly forces America to confront realities at the day-to-day international marketing level. It is time to decide if Eximbank in the 1990s is finally to have accessible support options that enable U.S. firms to win big-ticket contracts against the likes of multinationals from Japan, France, Germany, others within Europe, and several LDCs. My testimony today is intended to contribute to this debate.

Four Problems in Brief

I would like to highlight four interrelated problems that, I believe, limit Eximbank's role in the marketing plans of U.S. firms and so limit U.S. competitiveness. To maximize my time before this Committee, I will move directly to the problems, which I call: (1) problems of rhetoric; (2) problems of delay; (3) problems of mistaken intentions; and (4) problems of national interest. My documentation comes from such sources as Eximbank's annual "Competitiveness Reports," semi-annual reports to Congress about tied aid, industry surveys, congressional hearings, and academic research.

The first problem--usage of incorrect language to describe U.S. export-finance shortcomings--would be merely amusing if it did not obfuscate the issues and prevent serious evaluation of Eximbank's lack of competitiveness. Let me illustrate briefly.

Washington continues to call "extraordinary" five types of export-finance support that long ago became ordinary among the G-7 and elsewhere. Competitiveness Reports from 1970s to the present show that these five--exchange-risk insurance, local cost support, foreign content support, foreign currency lending, and mixed/tied aid credits--are indeed routine. Another unfortunate example is U.S. reference to such G-7 support as "predatory" pricing, while LDC buyers who seek such low-cost financing are deemed "spoiled" markets. These terms miss two basic points: price is a variable that marketers ignore at their peril; and creditworthy buyers

around the globe are well aware that competitive conditions can mean lower prices. Some of America's biggest firms confront these marketing principles on a daily basis.

The second problem--delay in changing the system--is evident whenever Washington seeks new negotiations within the Organization for Economic Cooperation and Development (OECD) forum. The pace at which other member delegations move to the table is truly one of all deliberate speed. And, once at the table, Europe and Japan find little incentive to pare back their programs quickly while their exporters are winning overseas orders.

For example, Washington need only recall long lapses before formal conclusion of the "Consensus Understanding" of 1976, the "Arrangement on Guidelines for Officially Supported Export Credits" in 1978, the landmark 1981 revision of the 1978 Arrangement to hike official export-finance support rates, the 1983 agreement that again raised rates and introduced the principle of automatic adjustment, the 1987 Arrangement on tied aid, and the latest (1992) modification of that Arrangement. In each case, U.S. exporters must carry on under provisions of the last agreement, while Washington trumpets a promise of new talks.

The third problem is underestimating or ignoring determination of most OECD and many LDC governments to support their exporters continuously, whatever the Arrangement. Former Eximbank Chairman John Bohn called this an "entitlement" philosophy. This contrasts sharply to sporadic U.S. attention to export-finance issues (e.g., the flurry that greeted the 1989 tied aid report) and the requirement that "need" be thoroughly documented.

This dichotomy is epitomized by Treasury greeting each new OECD agreement as a victory for international cooperation against export subsidies. Meanwhile, Japan, France, and others assure that their exporters remain competitive. The "extraordinary" steps in Competitiveness Reports and tables in OECD development cooperation reports highlight this reality.

The fourth problem is an inability to position deterioration of U.S. export-finance competitiveness within the national interest. This can relegate official discussion of the issue to why foreign governments should reduce their competitiveness...rather than the U.S. taking responsibility to assure that our exporters are able to win orders around the world.

Two passages in the April 26, 1993, "Semi-annual Report on Tied Aid Credits" typify this problem. One claims "...that the primary interest of the U.S. Government is in preserving the disciplines introduced by the new Arrangement rules, and establishing an OECD tied aid 'case law,' especially on the (commercial) viability test..." Yet that very report shows that most tied aid projects are being approved. A second admission welcomed by foreign competitors says "...with enforcement of the distinction between those projects which are eligible and those which are ineligible for tied aid financing, U.S. businesses will increasingly be able to concentrate their export efforts on those types of (commercially) viable projects where they can reasonably expect competition on standard Arrangement terms." I ask, are entire sectors to be abandoned? And, every competitor can readily calculate how the "Federal Credit Reform Act" severely limits usage of the so-called "war chest."

In sum, I see four problems that must be tackled. Otherwise, the four will deliver more of the same disappointment [see, for example, the appended article about Eximbank] in the 1990s as

in the 1970s and 1980s to exporters, to their domestic suppliers, to their employees, as well as to Clinton Administration promises to boost Eximbank.

Some Recommendations

Chairman Brody's promise at his swearing in was to make Eximbank the "most efficient and effective tool it can be for creating and preserving U.S. jobs and increasing the sale of American goods and services abroad." Meanwhile, the Export Enhancement Act of 1990 requires exporters to assist in creating a customer-driven Eximbank. My recommendations reflect these points amid predictable deterioration from Treasury's November 1991 euphoria about the newest OECD Arrangement. After all, this 1992 Arrangement is worth little without industry documenting foreign violations and such new loopholes as "untied" aid...and Congress recognizing the consequences of allowing deterioration to continue until new talks commence.

Despite a doubling of U.S. exports over the last decade, only now are Eximbank authorizations beyond 1980-81 levels. It will fall upon exporters to demonstrate how the excess demand for resources could translate into jobs. With Eximbank annually documenting how "extraordinary" factors also contribute to the institution's generally last place rating among the G-7, it is necessary to publicize--as NAM does--how resource curtailment adversely affects exports and competitiveness.

Simultaneously, with many OECD and LDC governments assuring that export finance is substantial and continuous, U.S. exporters must try to demonstrate anew that traditional Washington priorities to level the playing field are weak and late, taking years to implement as shortcomings of the previous OECD pact are chased down. Meanwhile, U.S. marketers should demand and expect exact updated criteria from Eximbank and/or Treasury for what will or will not be matched (by sector and country) as OECD "case law" unfolds in 1993-94. While it may be the "primary interest" of Washington to preserve Arrangement discipline, businesses can ill afford international sales prospecting if Eximbank support will not materialize.

Finally, U.S. exporters face complex external factors in addition to uncertainty about Eximbank. I judge that the trade-finance environment could be modelled, thereby enabling the U.S. to anticipate efforts of other competitors and justify faster and more accountable responses by Eximbank. Eximbank will be more customer-oriented if it allows U.S. exporters to be certain about terms and conditions for export-finance support.

On this note of urgency about assuring a competitive Eximbank, it is appropriate to conclude with an astute observation by the late Senator Heinz as he held Eximbank hearings in October 1985. "...I might observe that economists make wonderful, convincing arguments about how export subsidies distort free trade and are costly and inefficient. In the area of export credits, however, these arguments too often neglect the fact that there is no free trade to begin with. They too frequently gloss over the overwhelming evidence that when the United States stays out of the mixed-credit business the practice does not go away, only the business goes away..."

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US Official Export-Finance Support: Can American Exporters Expect a Competitive Eximbank to Emerge?

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US Official Export-Finance Support: Can American Exporters Expect a Competitive Eximbank to Emerge?

Alfred C. Holden

US official export-finance support is provided primarily by Eximbank. But budgetary and other limitations on that institution are significant, particularly regarding the amount of support available, and the applicable sectors and countries. In the late 1980s, American exporters have reported an urgent need for Eximbank resources to exploit overseas marketing opportunities. This paper documents the fundamentals of this support during 1976-1989 and offers insight as to why US programs are repeatedly judged to be less competitive than those offered by major foreign agencies to their exporters.

BOTH EXPERIENCED and novice exporting businesses in America have repeatedly identified export finance as crucial for success in the international marketplace. Since 1934 when the US government followed a succession of other industrial nations by establishing a federally-owned institution to support exporters, the Export-Import Bank of the United States (Eximbank) has been responsible for providing a portion of the loans and the financial guarantees that facilitate marketing of US goods and services in foreign countries.

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By the early 1960s—following balance of trade and current account deterioration in the late 1950s—it was apparent that American industry also required the third traditional export-finance support enjoyed by its foreign competitors: export-credit insurance. Under the cooperative guidance of Washington, the Foreign Credit Insurance Association (FCIA) was established and made operational by the private sector in 1962, thereby completing the triad of official loan, guarantee, and insurance offerings demanded by international marketing executives. Following the 1983 withdrawal of private insurance participation from FCIA and an Eximbank takeover of that institution, the three basic export-finance programs have been fully managed by Eximbank officials.

However, creation and consolidation of these three export-finance responsibilities within Eximbank have not assured success for American industry. In fact, these programs have been evaluated by users regularly since 1976 and found to be either not very competitive or simply inadequate. The most damning recent assessment of Eximbank's ongoing inability to support US industry was delivered June 20, 1989 at a "Conference on America's Competitiveness Agenda" by Senator John Heinz[1] of the Banking and Finance Committees: "Eximbank is a pathetic joke . . . the students in Beijing stood a better chance of competing against the Chinese army than our exporters have of beating a subsidized credit offer in that country."

On the other hand, in an era of rising concern about fiscal deficits and

subsidies, a formidable coalition of congressional, administration and outside critics have periodically sought to reduce, and even eliminate, such official export-finance efforts. On balance, the result is that the world's traditionally largest exporting nation has operated a considerably smaller and less responsive Eximbank than those support institutions run by major international competitors.

The purpose of this paper is to delineate basic issues for an assessment of Eximbank's lack of competitiveness. The time frame is the 1976-1989 period, an era during which an international "Gentlemen's Agreement" regarding official support guidelines has been in effect among the so-called industrial nations under the auspices of the Paris-based Organization of Economic Cooperation and Development (OECD). This is a timely topic because adequate provision of US export finance will involve budget choices at a moment when an export surge is underway and when a new administration is evaluating means to narrow hundred billion dollar trade and current account deficits. A report card of 1976-1989 performance thus yields lessons for public policy initiatives and enlightenment for some long-suffering international marketing managers.

I. EXIMBANK IN THE LITERATURE

The marketing literature is distinctly lacking large-scale systematic assessments of Eximbank programs. What is unusual about this situation is that researchers have long documented that exporter pricing is a vital and proactive element in the international marketing mix of successful firms. Practitioners confirm that an extension of credit to an importer can make the crucial difference between successful consummation of a sale or its loss to an overseas competitor presenting a better "packaged" transaction, i.e., one supported by a foreign government's export-finance agency. As such, an overview of Eximbank (including FCIA) programs is provided in the pricing chapter of virtually every standard international marketing text. (See Appendix A for major programs in effect in 1989.) However, the US government does provide an important, ongoing self-review of its chief export-finance institution. Since 1977, in compliance with Section 2b1A of the Export-Import Bank Act of 1945 (as amended), Eximbank has been required to prepare and issue a regular "Report to the US Congress on Export Credit Competition and the Export-Import Bank of the United States" (hereafter called "competitiveness report").[2] These rarely publicized, now annual, reports of Eximbank's compliance with various directives are forwarded to the Senate Committee on Banking, Housing and Urban Affairs and to the House Committee on Banking, Finance and Urban Affairs.

These competitiveness reports are structured to enable Congress to evaluate how well Eximbank is performing the basic objective it has been assigned under regular re-authorizations: assisting to meet the nation's policy of fostering the expansion of exports in manufactured goods, agricultural products, and other goods and services. In undertaking this task, Eximbank is directed to provide financial guarantees, insurance against political and commercial risks,[4] and extensions of credit at rates and on terms and conditions which are fully competitive with those rates, terms, and conditions available to our major international (OECD) competitors. Moreover, Eximbank is directed to seek methods of minimizing official international competition in export financing and to reach international agreements to reduce officially-subsidized export financing.

To facilitate congressional determination of whether Eximbank is meeting these wide-ranging directives, the annual competitiveness report typically incorporates a detailed review of two indicators of the external marketing environment. First, Eximbank is required to survey and to tabulate the comparative financing facilities of other large OECD governments and to indicate specifically how Eximbank's rates, terms, and other conditions rank vis-à-vis those offered by OECD competitors to their national exporters. Second, Eximbank must survey and publish results from a representative sample of US exporters and commercial financial institutions to record "customer" reaction on how Eximbank is meeting the financial support competition offered by other OECD countries

In addition to these congressionally-mandated annual competitiveness reports, Eximbank prepares a formal annual report surveying its activity and issues a variety of marketing documents describing its programs. FCIA also published a formal annual report during 1976-1981, and it continues to issue a variety of marketing documents.

Four notable official surveys, undertaken by Eximbank (1989), the General Accounting Office (1985 and 1987), and the Office of Management and Budget (1987), illustrate other official attempts to describe and evaluate the United States' overall export-finance effort.[5] The April 1989 Report on Tied Aid is proving to be one of the most shocking items to reach Congress in years. In testimony on May 16, 1989, the Acting President and Chairman of Eximbank calmly stated that US exporters in five key industries are losing foreign sales of at least $400-800 million annually because of Eximbank's inability to match the agency offerings of other OECD nations.

The two in-depth reviews completed in 1987, as required under Eximbank Act Amendments of 1986, were the first to evaluate the internal workings of FCIA within its post-1983 role as agent for Eximbank. Each provides considerably more historical data about this aspect of the official export-finance triad than had been released in annual competitiveness reports or FCIA/Eximbank annual reports. While FCIA's relationship with Eximbank changed fundamentally in 1983, export-credit insurance constitutes the largest share of total Eximbank activity (see Table 4). The 1985 study of Brazil by GAO investigates a major US export market as a case study for spotlighting broader issues of America's relative lack of international competitiveness, including the inadequacy of export-finance offerings.

Several non-official sources have

provided timely reviews of US export-finance during periods when exports have become increasingly vital to the national interest. For example, as early as 1971, the Presidential Commission on International Economic Policy[6] identified the crux of the export-finance issue: US exporters would be disadvantaged in the 1970s if Eximbank was not made fully competitive with its counterparts. Not only did that Commission conclude that Eximbank was not fully competitive, but it urgently recommended certain improvements, including: removing Eximbank from the federal budget and subjecting its operations to business-like accounting methods; establishing a short-term discount program; liberalizing the existing medium-term discount program; and increasing efforts to market Eximbank programs within the US export community.

Surveys of Eximbank effectiveness have also been undertaken by several trade associations. A 1977 study by the National Association of Manufacturers (NAM)[7] is one of landmark significance because it documented the extent of lost export sales associated with Eximbank inadequacies. In a period when global demand for industrial goods was expanding rapidly, survey participants provided explicit examples of lost export business due to Eximbank's non-competitive interest rates and maturities. NAM survey users also reported little evident success in Washington's efforts, formally initiated in 1976, to implement a "Gentlemen's Agreement" among the five largest OECD export credit agencies. Overall, not a single member of NAM rated Eximbank programs as better than those of a major competitor nation!

Equally discouraging was the 1982 study of the Machinery and Allied Products Institute (now MAPI) regarding lost exports or business not bid upon because of inadequate export financing. During 1981, a sample of just 39 member companies reported over $4 billion of export business lost or ignored.[8] MAPI's 1988 *Handbook on Financing US Exports* (5th edition) continues its organization's tradition of describing Eximbank programs in a realistic fashion.

During the mid-1980s, various academic studies have reaffirmed the importance of export finance within the overall international marketing mix of firms and the costs of inadequacy. One of the most comprehensive was undertaken for the New York/New Jersey Port Authority in 1984, when 600 US firms exporting to Western Europe were systematically surveyed.[9] With the dollar then climbing to record levels, most respondents understandably found their pricing policies to be the weakest link within the international marketing mix: fully 33% reported a massively over-valued dollar to be the primary obstacle to profitable exporting. This latter response was particularly startling because it cut across company size and the adversely affected US exports were targeted to a highly industrial region (the European Community). Prior to this survey, Eximbank support had been generally considered only marginally necessary to secure sales within OECD nations.

The OECD is the preeminent international organization which gathers information for assessing issues of export-finance comparability and adequacy. The OECD periodically updates its essential guide to the official services (by program and by institution) offered by each member nation,[10] and it compiles the aggregate totals of export-finance support provided by national agencies. In addition, OECD increasingly gathers and releases export-finance data regarding export agency exposures in the less developed countries (LDCs) in conjunction with banking information tabulated by the Bank for International Settlements (BIS).[11]

The International Monetary Fund (IMF) has also completed several surveys of official export-finance policies by major creditor nations.[12] While the primary purpose of these studies is to provide a picture of readjustment and restructuring obstacles and opportunities confronting heavily-indebted LDCs, an unintentional but useful picture emerges, highlighting major differences among the national goals and objectives of individual OECD programs. All too often, shortfalls are to the detriment of US exporters.

A variety of analytical studies by private institutions and individuals question the basic rationale of Eximbank operations. In many cases, this criticism centers on provision of interest rate subsidies on loans or guarantees to the export sector by a government agency, when such export-finance services could be provided by the private sector.[13] Authors at the Rand Corporation have turned out a series of elaborations[14] in the 1980s which attempt to prove that export credit subsidies are unsatisfactory for

TABLE 1

1976 Consensus Understanding on Rates and Terms *

Category of Importer Nation	Interest Rates 2-5 Yrs	>5-8.5 Yrs	>8.5-10 Yrs	Maximum Repymt. Terms
Relatively rich	7.75%	8.00%	N/A	8.5 Yrs.
Intermediate	7.25%	7.75%	N/A	8.5 Yrs.
Relatively poor	7.25%	7.50%	7.50%	10 Yrs.

* Local cost support and capitalization of interest were not mentioned, and there were no definitions of various elements of export financing. Procedures for reporting derogations (including prior commitments by the major official agencies) were informal. Sectors fully excluded from the terms above include agricultural commodities, military equipment, commercial jet aircraft, and nuclear power facilities. Satellite ground stations, conventional power plants, steel mills, and ships were partially excluded.

Source: Eximbank

TABLE 2

The International Arrangement on Rates and Terms After 1981 Revisions

Category of Importer Nation	Interest Rates 2-5 Yrs	>5-8.5 Yrs	>8.5-10 Yrs	Maximum Repymt. Terms
Relatively rich	11.00%	11.25%	N/A	8.5 Yrs.
Intermediate	10.50%	11.00%	N/A	8.5 Yrs.
Relatively poor	10.00%	10.00%	10.00%	10 Yrs.

Source: Eximbank

both welfare and strategic reasons and should be eliminated. For example, Henry claims that Eximbank's cost to US taxpayers during 1934-1986 was between $3.2 and $4 billion. An academic attack of equal weight was included in a critique [15] of Eximbank lending introduced into the Congressional Record by Senator Jesse Helms on May 26, 1982.

Finally, despite public and private sector attention to Eximbank performance during recent decades, few parties have considered Eximbank to be a *major* potential force for correcting US balance of payments problems. In the 1960s, for example, Washington relied heavily on capital outflow controls: the Interest Equalization Tax, Voluntary Foreign Credit Restramt, and the Foreign Direct Investment Program. These restraints were not thoroughly dismantled until January 29, 1974. During the 1970s, policy priorities included currency realignments/dollar devaluations, attainment of price stability, and initiation of global trade negotiations ("Tokyo Round"). In the 1980s, heavy emphasis has been placed on "voluntary" and other import restraints, bilateral negotiations with key countries, initiation of another multilateral trade round under GATT auspices ("Uruguay Round"), as well as dollar depreciation after 1985.

II. EXIMBANK EVOLUTION: THE PRIORITY TO LIMIT SUBSIDIES DURING 1976-1989

The *major* priority of the Ford, Carter, Reagan and Bush administrations regarding Eximbank has been to lessen and, ideally, eliminate the official *subsidy* element within the export-finance programs typically offered by other OECD nations to their exporters.[16] In fact, a series of so-called "Gentlemen's Agreements," laboriously negotiated during 1976-1983 among the major industrial countries, moved OECD governments from a voluntary and loosely-defined initial "Consensus," of five large nations accepting some limitations on low-cost subsidized packages, to a more institutionalized situation, where the subsidy has been considerably reduced within the loan and guarantee programs of virtually all OECD participants. At each step in this historic evolution, Eximbank chairmen typically hailed the tightened provisions as historic ones that would provide a level or competitive playing field for US exporters.

But US marketing managers have been far less enthusiastic about the actual results on two fundamental counts. First, negotiations on subsidies take years to complete, during which time much business is permanently lost. The annual competitiveness reports were just one outlet (see Table 6) permitting exporters and financial institutions to provide evaluations of lost business, as a result of US failure to match terms and special conditions still flexibly offered by nations that regard all qualified exporters as "entitled" to support.[17] Second, Eximbank users highlight the adverse impact of "domestic" threats, such as periodic efforts to pare back or eliminate various Eximbank programs despite evident "need," while US competitors abroad carefully maintain full-service national export-finance agencies and policies.

III. NEGOTIATIONS AND DEROGATIONS

Eximbank took a leadership role during 1976-1983 in tough international negotiations regarding export-finance subsidies. This laborious task took place during a period of international concern about payments imbalances, high interest rates, uneven economic growth, oil price uncertainty, rising inflation, and budget deficits, and recognition by US competitors of the importance of export promotion. But this difficult environment eventually produced some political movement abroad, resulting in four solid agreements that form the basis of today's guidelines as interpreted by Eximbank:

a. A "Consensus Understanding" in July 1976 among five major OECD nations put some initial structure into the then-unregulated competition in subsidized medium- and long-term official export-finance rates being offered to foreign buyers;

b. A 1978 signature by 22 OECD members on a more disciplined "Arrangement on Guidelines for Officially Supported Export Credits" updated and expanded the July 1976 Consensus, with implementation on April 1, 1978;

c. A landmark 1981 revision (of the 1978 Arrangement) hiked official export-finance support rates by 2 to 2½%, thereby narrowing the then wide gap between market interest rates and authorized subsidy rates;

d. An October 1983 agreement raised medium- and long-term rates again and introduced the principle of automatic adjustments of these minimum rates to reflect market conditions, as reinforced by supplementary agreements in the late 1980s.

The impact of each of these agreements can be illustrated from the viewpoint of a business executive responsible for directing US corporate marketing toward the overseas customer.

Pre-1978 support activity, including that conducted under the Consensus

Understanding of July 1976, relied on mostly informal guidelines. Not only did the parameters on interest rate subsidies offered by individual agencies lack explicitness, but there were few limits on what could be accomplished by experienced OECD competitors drawing on the support of their national export-finance institutions.

For example, after 1976 US marketing managers would have to rely primarily on their in-house intelligence systems to detect if another Consensus competitor, e.g., a Japanese construction machinery manufacturer, was incorporating unfair official support, e.g., from Japan's Eximbank, to encourage an Indonesian contractor to purchase Japanese equipment. That is, if Japan's Eximbank was offering export-finance support to the Japanese exporter below the minimum interest rates or beyond the maximum repayment terms of the 1976 Consensus Understanding (see Table 1)—thereby making the overall financial repayment package[18] more attractive to Indonesian authorities—the US exporter would have to investigate quickly to catch the activity

In essence, the US firm had three tasks ahead at Eximbank: to prove the existence of the Japanese offer via corporate documentation; to show that a multi-million dollar sale of American capital equipment, associated services and spare parts, was important to the US; and to demonstrate that a rate drop by Eximbank was necessary under its direct loan program to match the Japanese supplier's financial package. Needless to say, the NAM survey of 1977 indicated the futility of confronting this obstacle course in a timely fashion.

The 1978 Arrangement introduced considerably more discipline into this frustrating system, primarily by establishing formal export-finance terms and conditions for reporting derogations from the agreed figures. There were also now 22 contracting national export support agencies subscribing to the OECD minimum guidelines.

The effect was to give some new weapons to the US marketing manager. If, for example, France's Coface offered support so that a French manufacturer of telecommunications equipment could offer terms/conditions to an Algerian agency below beyond the Consensus minimums of Table 1, then Eximbank would, with documentation in hand, be prepared to call Paris to *verify* this violation. If caught in a derogation, Coface was required to raise its export support finance rate to the

TABLE 3

The International Arrangement "Matrix" of Minimum Interest Rate and Terms

(1983 — Present)

	I. Relatively Rich			II. Intermediate			III. Relatively Poor		
Effective Date	2-5 Yrs	>5-8.5 Yrs	>8.5-10 Yrs	2-5 Yrs	>5-8.5 Yrs	>8.5-10 Yrs**	2-5 Yrs	>5-8.5 Yrs	>8.5-10 Yrs
Oct. 15, 83	12.15%	12.40%	N/A	10.35%	10.70%	10.70%	9.50%	9.50%	9.50%
Jan. 15/84*	12.15	12.40	N/A	10.35	10.70	10.70	9.50	9.50	9.50
July 15/84	13.35	13.60	N/A	11.55	11.90	11.90	10.70	10.70	10.70
Jan. 15/85	12.00	12.25	N/A	10.70	11.20	11.20	9.85	9.85	9.85
July 15/85*	12.00	12.25	N/A	10.70	11.20	11.20	9.85	9.85	9.85
Jan. 15/86	10.95	11.20	N/A	9.65	10.15	10.15	8.80	8.80	8.80
July 15/86	9.55	9.80	N/A	8.25	8.75	8.75	7.40	7.40	7.40
Jan. 15/87*	9.55	9.80	N/A	8.25	8.75	8.75	7.40	7.40	7.40
July 15/87*	9.55	9.80	N/A	8.25	8.75	8.75	7.40	7.40	7.40
Jan. 15/88*	10.15	10.40	N/A	8.85	9.35	9.35	8.00	8.00	8.00
July 15, 88	***	***	N/A	9.15	9.65	9.65	8.30	8.30	8.30
Jan. 15, 89*	***	***	N/A	9.15	9.65	9.65	8.30	8.30	8.30
July 15/89*	***	***	N/A	9.15	9.65	9.65	8.30	8.30	8.30

* No change in the matrix of six months earlier as calculated by the weighted average of medium-term government bond yields for the five major OECD currencies (with a slight modification in the relative weighting implemented on 12/31/85). The formula for Category II and III countries was also changed on 7/15/88.

** Applies **only** to long-term credits to those countries classified as relatively poor prior to June 1982. Otherwise, maximum repayment term is 8.5 years.

*** Matrix rates were eliminated for Category I countries as of 7/15/88, and each OECD signatory subsequently extending bank guarantees or supplier credits to such industrialized nations is required to use "Commercial Interest Reference Rates" (CIRRs) as the minimum support rates. Generally, the CIRR is a margin over monthly average government borrowing costs of five-year, fixed-rate funds. CIRRs are updated monthly by OECD to reflect previous month's data from each member.

Source: Eximbank and OECD

TABLE 4

Eximbank New Program and Related Activity (FY 1975 - FY 1990)

(Figures in $ bil)

	FY90a	FY89a	FY88	FY87	FY86	FY85	FY84	FY83	FY82	FY81	FY80	FY79	FY78	FY77b	FY76	FY75
Fin Guarantees	2.20	2.20	0.61	1.51	0.72	0.78	0.90	1.20	0.24	0.89	1.91	0.51	0.24	0.49	1.66	1.57
Med Trm Guar					0.41	0.54	0.43	0.54	0.49	0.62	0.61	0.40	0.35	0.53		
FCIA Insurance	8.00	8.00	5.13	5.25	4.38	6.53	5.82	6.78	5.11	5.91	5.52	4.11	3.36	3.36	3.47	2.93
Sub total	10.20	10.20	6.74	6.76	5.51	7.85	7.15	8.52	5.83	7.42	8.03	5.02	3.95	4.38	5.13	4.50
Loan program	.00	0.70	0.69	0.60	0.58	0.66	1.47	0.85	3.52	5.43	4.58	4.48	3.43	1.22	3.49	3.81
Total	10.20	10.90	9.42	7.35	6.09	8.51	8.62	9.37	9.35	12.85	12.61	9.49	7.38	5.60	8.62	8.32
Direct loans Outstg (end of FY)	7.87	8.53	9.91	11.20	14.35	16.86	17.50	16.88	16.57	15.80	13.77	11.86	11.55	11.54	10.83	9.42
Net oper. gain (loss)	(0.38)	(0.36)	(0.40)	(0.48)	(0.34)	(0.38)	(0.34)	(0.25)	(0.16)	(0.01)	0.11	0.16	0.14	0.14	0.12	0.08
Total Govt. Equity in Eximbank (end of FY)	0.17	0.55	0.91	1.30	1.60	2.18	2.64	2.87	3.10	3.30	3.25	3.13	2.97	2.83	2.65	N/A

Source: Budget of the United States (Appendix), Executive Office of the President, various years

a — Official estimates

b — Transition quarter data between FY 1976 and FY 1977 is omitted from this table.

Note that Eximbank was technically excluded from budget between 8/17/71 and 9/30/76

Columns may not add to total because of rounding.

Arrangement minimum or Eximbank was prepared to match the French offer.

In fact, Eximbank was able to announce a few successes in the years before interest rates climbed rapidly and concerns about losses (see Table 4) caused retrenchment to be the order of the day. For example, in December 1978, Eximbank announced that its Board of Directors had authorized a direct loan at 6%, which enabled ITT Space Communications to match a financing package offered by a French firm to Cyprus Telecommunications Authority (CTA). Eximbank's credit of $3,860,000 enabled the US exporter to win a $4.5 million sale. CTA made the 15% required payment of $681,000. This contract would surely have been lost if Eximbank had insisted on adhering rigidly to its normal lending rates, ranging from 7.75% to 8.75% (8.125% would have prevailed for this transaction), moderately above the Arrangement minimums.

The 1981 revisions to the Arrangement were implemented only after frustratingly long negotiations within OECD during a gloomy era of falling international business activity, sharply rising interest rates, and intensified export competitiveness among our key competitors. When finally agreed to by the 22 governments, the new changes would theoretically (but marginally) benefit otherwise strained fiscal positions of OECD governments by lifting minimum official support rates for export transactions by 2 to 2½% (see Table 2). That is, by pricing official support closer to but still below record market interest rates of the era, governments would reduce the subsidy element of each transaction.

The US marketing manager could now theoretically assume that his officially-supported OECD competitor abroad was also confronting the same, high-priced minimum base rate. And presumably Eximbank would make a positive decision—i.e., this new minimum rate would be less subsidized than that prior to the 1981 revision. However, the MAPI survey of 1982 and the Holden/World Trade Institute survey of 1984 show the impact of Washington's efforts to pare back activity in the face of federal fiscal problems and attempts by some to eliminate all subsidies from the budget.[19]

Continuing the priority of two previous administrations, the Reagan administration tediously negotiated a 1983 agreement as well as minor subsequent amendments to the Arrangement, all of which carry into 1989 (see Table 3). This effort once again boosted interest rates for officially-supported medium- and long-term programs to put them close to market rates. The major innovation was a commitment by the 22 OECD signatories to review and adjust these rates automatically every 6 months under a "matrix" formula linked to bond market rates in the five major countries.

Thus, the US marketing manager

TABLE 5

Eximbank's Evaluation of Extraordinary Support by the Major OECD Competitors
(Selected Years)

	Inflation Insurance	Exchange-Risk Insurance	Mixed Credits or Tied Aid	Local Cost Support	Foreign Content Support	Foreign Currency Lending
France						
1978	3	3	3	2	n.r	n.r
1980	3	3	3	2	n.r	2
1982	3	3	3	2	2	2
1984	3	3	3	2	2	3
1986	3	3	3	2	2	3
1987	3	3	3	2	2	3
1988	3	3	3	2	2	3
Japan						
1978	0	2	2	3	n.r	n.r
1980	0	2	2	3	n.r	0
1982	0	2	2	3	2	0***
1984	0	2	2.5	3	2	0***
1986	0	2	3	3	2.5	2***
1987	0	2	3	3	2.5	0***
1988	0	2	3	3	2.5	0***
UK						
1978	2	2	2	2	n.r	n.r
1980	2	2	2	2	n.r	3
1982	2	2	2	2	2	3
1984	1.5	1.5	2	2	2	3
1986	1.5	1.5	2.5	2	2	3
1987	1.5	1.5	2.5	2	2	3
1988	1.5	1.5	2.5	2	2	3
Germany						
1978	0	2	2	3	n.r	n.r
1980	0	2	2	3	n.r	0
1982	0	2	2	3	3	1*
1984	0	2	2.5	3	3	1*
1986	0	2	2	3	2	1*
1987	0	2	2	3	2	1*
1988	0	2	2	3	2	1*
US						
1978	0	0	0	1	n.r	n.r
1980	0	0	1**	1**	n.r	0
1982	0	0	0	0	0	1*
1984	0	0	1	1*	0	1.5*
1986	0	0	2.5	1*	0	2*
1987	0	0	1	1*	3	2*
1988	0	0	0.5	1*	3	2*
Canada						
1982	0	0	2	2	3	3
1984	0	0	2	2	3	3
1986	0	0	2.5	2	3	3
1987	0	0	2.5	2	3	3
1988	0	0	2.5	2	3	3
Italy						
1982	0	2	1	0	1	3
1984	0	2	1	0	2	3
1986	0	2	2	0	2	3
1987	0	2	2.5	0	2	3
1988	0	2	2.5	0	2	3

Source: Eximbank

n.r. = Not ranked
* = Pure cover
** = Facilities available but not used in 1980 or 1981 for new commitments
*** = May be on-lent in a foreign currency by the exporter
0 = Nonexistent
1 = Used only to match competitors
2 = Available and moderately used
3 = Extensively used program

of food processing machinery, looking ahead to sales opportunities in the 1980s, could presume that his Canadian competitor would continue to confront the same, essentially market-driven matrix of minimum rates for official export support from EDC as Eximbank would provide. Moreover, the matrix rates would fluctuate in a systematic manner to reflect fully the cost of funds to the national agencies.

All in all, by the late 1980s, the long-term US goal of reducing and even eliminating international subsidies in official export-finance support was apparently achieved. But even as the annual competitiveness reports and other studies document lost US exports during this struggle, it is instructive to consider other crucial export support elements. In the discretionary areas Washington's approach to the export community is also driven by "needs" rather than "entitlements."

IV. THE DISCRETIONARY AREAS: NEVER A STRONG EXIMBANK COMMITMENT

This 1976-1989 evolution—from Eximbank's engineering of a loose Consensus pact on rates and terms among five OECD nations to securing a more binding Arrangement with explicit agreements on market-oriented rates, terms, and sectors among 22 OECD nations—is only part of the story for the US exporter of capital goods or big-ticket consumer items. Eximbank's own competitiveness reports and other surveys present another side of the implementation of congressional directives regarding competitiveness. During this era of intense, often bitter, negotiations on export-finance conditions among OECD members,[20] signatory governments have carefully retained full independence in at least three important and interrelated discretionary criteria of direct importance to international marketing success: 1) the level of overall national funding or authorizations for their respective loan, guarantee, and insurance programs; 2) the establishment of country limits or guidelines for export-finance extension to assist their respective export sectors; and 3) the distribution of authorizations among their domestic industries or groups.

Each of these discretionary areas is worth examining, as each contributes to the *frustration* registered by US manufacturing and financing institutions over Eximbank performance. Disparity and unevenness of delivery of Eximbank products add to the exporter's pricing burden, with resultant complaints beyond those expected in looking at the formal 1976-1989 agreements and modifications designed to limit/eliminate subsidization.

Authorizations for Eximbank are proposed by the President in his annual budget message and set by Congress. The final authorization is a limit upon Eximbank activity, and the proposed and final figures require marketing executives to make a fine set of calculations about the level of overall capacity within Eximbank/FCIA, including availability of individual windows/programs.

Specifically, the private sector must normally await and interpret the tone of the authorization issue as set forth by the President. By proposing to pump more budgetary outlays into key programs—or, as frequently happens, by holding constant or even proposing to reduce eliminate certain programs—the President sets the direction of Eximbank and its ability to service the US exporter.

Appendix B summarizes presidential messages about Eximbank during 1976-1989. One key reason for the roller coaster of actual Eximbank activity (see Table 4) is that annual messages have exhibited remarkably hot and cold references to Eximbank authorizations. US export executives are hard-pressed to discover explicit presidential recognition of the volatility of US merchandise exports during this era. Exports increased from $115 billion in 1976 to $239 billion in 1981, fell during 1982-1986, and finally jumped to $254 billion in 1987, $322 billion in 1988, and over $360 billion in 1989. There is also no recognition that Eximbank might have an important role in fostering an export expansion to help reduce record trade deficits.

Country guidelines are Eximbank's responsibility, after taking account of congressional, State Department, and other related limitations.[21] This means exporters must anticipate that such ephemeral factors as a changing assessment of a country's creditworthiness, the repayment experience of Eximbank with buyers in certain countries and/or sectors, and various Washington-mandated political restraints will govern the amount and geographical distribution of export-finance resources.

At first glance, country limitation schedules provided to program users by Eximbank during the 1976-1989 era, supplemented by discussions with Eximbank officers, provide a clear and definitive reading on this issue. That is, the marketing manager or his financing bank could determine rather quickly the availability of support for a transaction with a creditworthy buyer in an eligible foreign country.

Nonetheless, as US exporters repeat in all surveys by and about Eximbank, a specific foreign market can routinely be *de factor* downgraded by Eximbank due to various concerns. They complain that the same country might remain open to

TABLE 6

US Exporter Ratings of Official Export Credit Facilities by Program for Selected Years

	1978	1979	1981	1982		1983		1984*		1986*		1987*		1988*	
LONG-TERM															
1.	Jap	Jap	Fr	Fr	1.2	Jap	1.5	Fr	1.1	Fr	1.1	Fr	1.1	Jap	1.1
2.	Fr	Fr	Jap	Jap	1.2	Fr	1.8	Jap	1.2	Jap	1.2	Jap	1.1	Fr	1.2
3.	UK	UK	UK	UK	1.3	It	2.0	It	1.4	It	1.8	Can	1.7	UK	1.S
4.	Ger	Ger	It	Can	1.4	UK	2.4	Can	1.7	Can	1.9	UK	1.8	It	1.6
5.	It	It	Ger	It	1.5	US	2.5	UK	1.8	UK	1.9	It	1.8	Can	1.6
6.	US	US	Can	Ger	1.8	Can	2.7	US	2.1	Ger	1.9	US	1.9	Ger	1.7
7.	—	—	US	US	2.8	Ger	3.0	Ger	2.2	US	2.0	Ger	2.2	US	2.2
MEDIUM-TERM															
1.	Jap	Jap	It	Fr	1.2	Jap	1.0	Fr	1.1	Jap	1.3	Jap	1.2	Jap	1.0
2.	Fr	Fr	Fr	Jap	1.2	Fr	1.6	It	1.4	Fr	1.4	Fr	1.3	Fr	1.1
3.	Ger	Ger	UK	UK	1.3	UK	1.8	Jap	1.4	Can	1.7	Can	1.7	UK	1.6
4.	UK	UK	Jap	Can	1.6	US	1.9	UK	1.7	UK	1.8	UK	1.8	Can	1.7
5.	It	US	Ger	It	1.8	It	2.0	Can	1.8	It	1.9	It	1.9	Ger	1.8
6.	US	It	Can	Ger	2.0	Can	2.1	Ger	1.9	Ger	1.9	Ger	2.0	It	1.9
7.	—	—	US	US	2.5	Ger	2.3	US	2.1	US	2.0	US	2.0	US	2.0
SHORT-TERM															
1.	Jap	UK	UK	Fr	1.3	Jap	1.2	Fr	1.5	Jap	1.4	Jap	1.2	Fr	1.4
2.	UK	Jap	Jap	UK	1.3	Fr	1.8	UK	1.7	Fr	1.6	Fr	1.4	Jap	1.5
3.	Fr	Fr	It	Jap	1.5	UK	2.0	Jap	1.9	UK	1.7	Can	1.7	UK	1.6
4.	Ger	Ger	Fr	It	1.7	US	2.1	It	1.9	Ger	1.7	UK	1.8	Ger	1.7
S.	It	US	Ger	Can	2.0	Can	2.5	Ger	1.9	Can	1.9	It	1.8	It	1.8
6.	US	It	Can	Ger	2.0	It	2.6	US	2.0	It	1.9	Ger	1.9	Can	1.9
7.	—	—	US	US	2.2	Ger	2.8	Can	2.1	US	2.1	US	2.1	US	1.9

Source: Eximbank

For 1982-88: 1 = highly competitive
2 = basically competitive
3 = basically uncompetitive

For 1978-81: Countries ranked in order of export agency competitiveness

* = Not strictly comparable with earlier years as the exporter and banker survey responses were combined by Eximbank

Japanese, French, or other OECD exporters under their national programs. Moreover, a variety of sudden tightening or rationing devices have traditionally existed within Washington to elevate the actual financing cost for a US exporter—and so to his foreign customer—seeking support for a country that is theoretically open. Best known are Eximbank demands for the exporter to assume a higher retention of risk, to accept longer waiting periods before filing a claim, and to obtain more security from the foreign buyer. Finally, imposition of wait-and-see delays in processing applications at Eximbank adds costs that ultimately can make the transaction non-competitive in the face of strong Japanese or European determination to capture a sale.

Distribution of program beneficiaries is also a political decision, one reflecting an ongoing effort at Eximbank and within Washington to introduce new programs for certain product lines (e.g., agricultural commodities or financial leasing) or to service business segments (e.g., small firms) that are otherwise unable to take advantage of private sector financial alternatives. Most surveys indicate that Eximbank has a good record in terms of developing and announcing new offerings targeted for marketing managers studying global opportunities.

Unfortunately, the smaller (especially the newly exporting) firm, under the gun of dollar elevation and global economic weakness during the early 1980s, was often unable to take advantage of the latest initiatives, even as Eximbank programs were increasingly focused upon facilitating foreign sales by that sector. A 1988 pilot program for state city agencies to bolster exports generated only modest foreign sales.[22]

Meanwhile, international marketing managers of experienced exporting firms, executives who require consistency in established Eximbank programs and timely assurance that their transactions will be competitively priced, were often rationed in their needs. For example, Eximbank's Acting President and Chairman announced[23] on March 16, 1989, that the institution would again have to defer some loan authorizations (or commitments) into 1990. Loan demand by that early date was about to exceed Eximbank's $690 million budget authority for FY 1989. Left unsaid were the essentially open budgetary commitments by our strongest competitors to their national exporters.

Table 5 illustrates the complexity of this slanted beneficiary problem from a different but comparative international perspective, one that Eximbank calls "extraordinary support." Note that Eximbank effort is traditionally and seriously deficient in the financial support coverage areas of mixed credits, local costs, and foreign content (see Appendix C for definitions of such support). While these supports are often ancillary areas of little concern to many US exporters under the loan and guarantee programs, they are vital in the struggle of several manufacturing sectors to secure hard-fought orders of big-ticket capital goods and associated services. Without question, buyers in creditworthy LDCs confront a variety of sweetened offers via extraordinary support from other OECD suppliers determined to satisfy their customers abroad.

V. MIXED CREDITS: AN EXTRAORDINARY AND OBDURATE OBSTACLE

During the "Gentlemen's Agreement" era, Washington has never satisfactorily resolved its approach to a particular type of extraordinary export-finance support offered by most OECD (and now LDC) governments to their national exporters. "Tied aid" financing, which is defined by OECD[24] as loans or grants or associated financing packages involving a concessionality level greater than zero percent that are, in effect, tied to procurement of goods and services from the donor country, has been part of aid efforts for decades. Typically, such "tied" official financing has taken three forms: official development assistance loans; official development assistance grants; and other official flows that exclude export credits extended in conformity with the 1978 Arrangement.

But the gradual tightening of guidelines and lessening of the subsidized element in export credits raised the profile of a controversial fourth form or so-called "mixed credit" during 1976-1989. This is an association that links or "mixes" one of the three traditional aid-type flows with an export credit that is officially supported by a direct loan, guarantee, or insurance. The key element is that while the recipient country is not free to finance procurement (as a result of formal or informal understanding between creditor and debtor) the final price is reduced by the loan/grant element.

The April 1989 *Report on Tied Aid* is a key source for (a) tracing long-term US frustration with, and export losses from, nations using this latter practice and (b) outlining the very modest results during 1987-1989 following conclusion of OECD negotiations in March 1987. Much can be learned, too, about a decade of uneven US response to what Washington calls "predatory pricing" by various competitors.

The highlights of the Report follow:

a. *FY 1979-1981* was the first time that Eximbank, under encouragement of the Treasury, tried to "match" mixed credit offers that seemingly violated the spirit of the 1978 Agreement. But the only preliminary commitments (appproved by Eximbank) later converted into final authorizations were some $56 million in five loans to Tunisia for equipment and diesel locomotives; half of each loan was priced at 3.7% intesrest rates with repayment over 18 years and a seven-year grace period, and the other half of each loan was provided at standard export credit rates. But a combination of budgetary cutbacks here and skilled competitors abroad effectively ended this meek US approach by late 1981.

b. *FY 1983-1985* was an era of somewhat relaxed budgetary

constraint and enactment of the Trade and Development Enhancement Act of 1983. The latter gave Eximbank and AID a shared responsibility for meeting mixed credit competition, but no additional resources. Only one transaction was consummated under this awkward partnership. However, Eximbank used its own authorizations to try to further administration objectives in securing an OECD agreement on mixed credits by attempting to disrupt the most recalcitrant OECD competitors. But the single success, a $15.3 million loan to Indonesia at 6.5% for 20 years for purchasing machine tools, did little to dampen the enthusiasm of European and Japanese authorities, who routinely utilized mixed credits as an international marketing tool.

c. *FY 1986-1989* has been characterized by authorizations for a new response: establishment of a "war chest" or grants to be combined with Eximbank resources to generate mixed credit export sales. Specific goals for the $300 million allocated out of Treasury funds were: in 1986-1987, to counter "predatory" practices of the worst violators (France and Japan) and to force governments to the negotiation table, and in 1988-1989, to ensure effective implementation of the March 1987 agreement. Before March 1987, the war chest option was used most frequently. For example, $58.2 million would underpin 20-year, 2% loans that supported such exports as earth satellite and radio equipment to Gabon, hospital and airport navigation equipment to Brazil, and gas turbines to India. In the subsequent period, only one-seventh as many war chest resources were committed, although Eximbank has conceded that this is *not* an indicator of a decrease in mixed credit usage by Europe and Japan.

The OECD agreement on tied credits that Secretary Baker announced on March 17, 1987, was trumpeted as yet another landmark in international cooperation and an end to subsidies. Washington displayed remarkable faith in two key provisions:

1. The "minimum permissable grant element" was raised from 25% to 35%, with the threshold to be 50% for the "least developed" nations and no mixed credits to be permitted importers within industrialized countries;
2. The calculation of the "grant element" was changed to reduce/remove advantages of low-interest rate countries; the OECD had used a 10% loan interest rate since 1969 for measuring concessionality, but now each currency would have its own yardstick or "differentiated discount rate"

Eximbank surveys of American business in preparation of the *Report on Tied Aid* confirm the serious damage to US exports and production inflicted by mixed credits during the 1985-1988 period. Direct exports lost by the five most adversely affected sectors—power generation, telecommunications equipment, heavy earth-moving equipment, locomotives and signalling equipment, as well as computers—led to estimates of between $500 million and $1.5 billion lost annually for the total US export sector. However, indirect or lost follow-up exports were estimated to be *several times* that figure.

It therefore comes as no surprise that Eximbank was forced to conclude that a significant share of US productive capacity in the most affected sectors has been shifted abroad to take advantage of more flexible credit financing possibilities.[25] Thus, Senator Heinz spoke for many in Washington and the American business sector when he bitterly observed in June that the deterioration was continuing, whether by usage of "grandfather" clauses, other loopholes in the 1987 agreement, or American incomprehension of the dilemma.

VI. THE REPORT CARD: WHAT DO THE USERS SAY?

Annual competitiveness reports have regularly included user survey responses about Eximbank/FCIA programs. While the methodology of this annual questionnaire has not been adequately spelled out by Eximbank or even made uniform over the years, the results are certainly not flattering for Washington or encouraging for US marketing executives who might expect "customer" complaints to be given more attention.

While the details of the survey are more properly the subject of further research, it is useful to summarize the overall results (Table 6). Clearly, Eximbank programs rank at or near the bottom of the chart, typically somewhere between "basically competitive" and "uncompetitive." And where absolute improvement has been registered, it is evident that other nations are not lessening their efforts.

IN CONCLUSION AND RECOMMENDATIONS

Eximbank competitiveness reports, covering the period from October 1, 1977 through December 1988, present a rather discouraging report card of the impact of Eximbank programs on the US export community. Despite a general commitment by that institution to meeting congressional directives regarding competitiveness, the shortcomings of our official support effort are apparent. With so much of Washington's effort directed toward negotiating international reductions in subsidies—while tolerating hot and cold budget authorizations—the net effect is to make the US exporter less well served than his counterpart in the other large OECD nations. Unfortunately, the gap between the US programs and those of major competitors has not been closed.

During 1987-1989, Eximbank has clearly renewed efforts to be responsive to its target audience. The 1987 Eximbank Annual Report provides a good summary of several new programs and the steps undertaken to alter promotion, pricing, and delivery of services. But given the impact of

US budget cuts and a general disinterest within Washington and the nation about the role of export-finance within export promotion, it is not surprising that recent competitiveness report surveys show only marginal relative or absolute gain in Eximbank responsiveness. As John Bohn implicitly conceded in 1987 and in 1988 testimony before Congress, our OECD competitors—as well as several aggressive non-OECD developing countries—are well aware that America does not understand that official finance-support programs are more than textbook or academic principles in the struggle for export market supremacy.

The following recommendations would serve to counter the general malaise that grips the US export community regarding Eximbank's future.

First, it is time to close the artificial gap among traditional Eximbank directives to (a) offer a variety of competitive programs, (b) become self-sufficient, and (c) negotiate a level playing field regarding subsidies and other "extraordinary" support.

Second, it is time to clarify the budgetary distortion that has plagued Eximbank authorizations since that institution's operations were returned to the unified US budget at the start of FY 1976. During 1976-1989, Eximbank loans have been treated the same as expenditures, i.e., as grants, with this supposed "outlay" balanced only against repayments of loans and interest from activity of previous years. This faulty accounting (under which loans are considered debts and as such contribute to the overall budget deficit) focuses attention on Eximbank loan *disbursements,* many of which follow loan *commitments* of several years before. Unfortunately, few view "net" fiscal year lending figures, which should rationally reflect exporter demands in any fiscal year and should be a combination of: disbursements called for in the fiscal year for commitments made in previous fiscal years; disbursements made to satisfy the higher export activity experienced in this fiscal year; and expected exporter repayments to Eximbank in the fiscal year.

The result is that an "austere" federal budget—or one deliberately stacked against Eximbank due to misunderstanding about "outlays" or concern about its losses during 1981-1989—forces Eximbank to cut back new commitments to exporters today for already-scheduled disbursements associated with loan commitments made over the previous years that could alone exceed the budget ceiling. This *de facto* crunch is especially visible during a sharp US export recovery, as in 1987-1989, when Eximbank must inevitably close its loan windows or otherwise defer commitments to businesses that are negotiating transactions abroad and might require official support *now.*

Third, it is time to manage the national export-finance support program as if our national interest were at stake. Few would quarrel that Eximbank should continue to derive funds for its programs and claims payments from its $1 billion capital stock (held by the US Treasury), from Treasury and Federal Financing Bank loans and from fees, interest, and principal repayments associated with its programs. But the $2.7 billion 1981-1989 losses, which first caused Eximbank to suspend dividends to the Treasury in the late 1970s, reflect the largely unforeseen combination of LDC repayment difficulties and the mismatch in the early 1980s between the Eximbank borrowing rate and its lending to support export activity. These are precisely the same factors that caused all other OECD nations to register export-support losses during this era—but without the national hand-wringing.

Therefore, as the Bush administration agonizes over what our competitors would consider a truly microscopic dilemma—when/whether to ask Congress in 1989 or 1990 to augment Eximbank resources in order to add to reserves—the question of national interest should be paramount. To this end, the facts about the 1976-1989 experiences are starkly apparent. Following the long series of OECD export subsidy negotiations, both successful and unsuccessful, no major competitor has ever considered the results as justifying a weakened level of official support. And in fact, LDCs are increasingly emulating the Japanese and French agency examples of securing market penetration for their capital goods. Overall, there is no break in bipartisan support in those OECD countries to absorb export-finance losses that are primarily attributable to unforeseeable LDC problems or to export lending policies that sought to preserve jobs despite a funding rate mismatch. After all, would any country actually eliminate its primary national export support effort because of $2.7 billion in 1981-1989 losses . . . or roughly $1.25 per American citizen each year?

Fourth, it is time to carry the Eximbank issue beyond the committed confines of such trade associations as NAM, MAPI, National Foreign Trade Council, and a few members of Congress. For too long, Eximbank has remained popularly tagged with an appellation of the 1970s—"Boeing's Bank." Unfortunately, as long as the major burden for justifying export-finance support rests with Eximbank and a few large corporations, the task is most probably hopeless. For example, despite unprecedented Eximbank efforts in 1988-1989 to broaden its political support via marketing its small business initiatives, small business still represented only 25.7% of Eximbank's total authorizations of $4.04 billion during the first eight months of FY 1989. An educational process about export finance is long overdue in America as Congress and the Bush administration consider the fate of Eximbank.

A few specific comments about export-finance issues in this debate ahead seem appropriate. First, the existence of a large international banking activity does *not* guarantee that adequate private sector capacity and interest exist to support export orders. In fact, the commitment to export-finance in the late 1980s is much diminished [26] in money market *and* regional banks, even though demand has risen as US exports climb. Second, Eximbank/FCIA programs as outlined in pricing chapters of textbooks are *not* immutable or uncontrollable. New programs are introduced and others are improved in response to export pressures, even as presidential budgetary recommendations and congressional authorizations affect present and future capacity of

Eximbank to fully leverage its resources in all activity. Third, large manufacturers are *not* the only beneficiaries of Eximbank programs. Not only was a significant share of authorizations consciously directed to small firms by the late 1980s, but lists of sub-contractors of Boeing, Caterpillar, and other large exporters reveal the wide geographical employment spread of an aircraft or construction machinery exporter. Finally, Eximbank's (and Washington's) international negotiating mandate cannot be unlimited in a world where US merchandise exports in 1988 are but 11.9% of the global total. Whether the intention is to eliminate "mixed credit" subsidies or to open markets in multilateral trade talks, it is clear that powerful competitors will look to their national interests which seem always to include the need to provide steady and unrelenting export support to qualified firms.

In summary, it seems time to reposition the forthcoming national discussion about Eximbank competitiveness. Given our external account deficit and the export success of both our OECD competitors and various advanced LDCs, this country should debate the need to make Eximbank an entitlement for qualified exporters. Contribution of a system geared to an uneven evaluation of exporter "needs" is perhaps a luxury this country can no longer justify.

APPENDIX A

Major Eximbank Programs: A Capsule Summary

The following major Eximbank programs are in effect in 1989, categorized here by loans, guarantees, and insurance. A brief description of each will familiarize readers with the offerings of America's official export-finance institution.

LOANS

A. *Eximbank Direct Loan* *: A fixed interest rate loan ** (for up to 85% of the contract price) from Eximbank to a foreign buyer of US capital goods or services (or certain big-ticket consumer items) when there is officially subsidized foreign competition.

B. *Eximbank Intermediary Loan* *: A fixed interest rate loan (for up to the balance of the lender's export loan, but not to exceed 85% of the contract price) to an intermediary lender that extends an OECD minimum fixed-rate loan to a foreign buyer of US product (as defined above) when there is officially subsidized foreign competition.

GUARANTEES

A. *Eximbank Guarantee* *: A guarantee of repayment on 100% of the financed principal portion of fixed or floating rate export loans (with most interest rates also guaranteed) made by US or foreign lenders to foreign buyers of US product as defined above).

B. *Eximbank Working Capital Guarantee*: A guarantee of repayment of up to 90% of the principal and interest on export-related working capital loans made by commercial institutions to creditworthy small and medium-sized businesses involved in exporting any eligible products.

* = A "preliminary commitment" (PC) is available, in advance from Eximbank to detail that institution's acceptable terms and conditions for these loan/guarantee supports.

** = Since October 1983, these are fixed at OECD "matrix" guidelines and adjusted automatically every six months. (see Table 3).

INSURANCE

A. *FCIA Short-Term Single-Buyer Insurance Policy*: A single-buyer policy insuring a US exporter against political and commercial risks of non-payment for products eligible for coverage of up to 360 days.

B. *FCIA Medium-Term Single-Buyer Insurance Policy*: A single-buyer policy insuring a US exporter against political and commercial risks of non-payment for capital goods/service items and big-ticket consumer goods eligible for coverage of up to 5 years.

C. *FCIA Multi-Buyer Insurance Policy*: A one-year blanket policy insuring a US exporter against political and commercial risks of non-payment for products eligible for either short-term or medium-term coverage.

D. *FCIA Financal Instiution Buyer-Credit Insurance Policy*: A single-buyer policy insuring the political and commercial risks of short-term loans made by financial institutions to foreign buyers expressly for import of US products.

E. *FCIA New-to-Export Insurance Policy*: A one-year blanket policy for new exporters or for those with less than $750,000 annual export sales in the past 2 years, for insuring short-term export credit sales against political and commercial risks.

F. *FCIA Umbrella Insurance Policy*: A one-year blanket policy for exporters with less than $2 million annual export sales in the past 2 years for insuring short-term export credit sales against political and commercial risks, but with the applicant being any entity (including state/regional or private export trading companies) administering the policy on behalf of various exporters.

G. *FCIA Bank Letter of Credit Insurance Policy*: A special one-year blanket policy for approved US banks to insure against political and commercial losses on irrevocable letters of credit issued by foreign banks for US exports.

H. *FCIA Lease Insurance Policy*: A special policy for any company that participates in the financing of leased US equipment and related services with the flexibility to insure (against political and commercial risks) either total payments or both the stream of payments and fair market value of the leased product.

Source: Eximbank.

APPENDIX B

Selected Excerpts from Annual Budget Messages of the President

1. For FY 1977, budget outlays to support Eximbank activities are estimated at $1.3 billion (Gerald Ford, 1/21/76). [N.B. Eximbank is placed under "International Affairs" after being excluded from the budget between 8/17/71 and 9/30/76.]
2. For FY 1978, budget outlays to support Eximbank activities are estimated at $1.0 billion (Gerald Ford, 1/17/77).
3. For FY 1979, budget outlays to encourage exports require Eximbank direct credits to increase 30% from the 1978 level, with outlays (net of loan repayments and other receipts) estimated at $196 million in 1978 and $404 million in 1979 (Jimmy Carter, 1/20/78).
4. For FY 1980, in line with the announced policy to encourage exports, Eximbank direct loans are estimated to increase 12% between FY 1979 and FY 1980, while guarantee/insurance programs are estimated to increase 10-20% annually to keep pace with national export growth (Jimmy Carter, 1/22/79).
5. For FY 1981, Eximbank is not explicitly mentioned in Jimmy Carter's message of 1/28/80, but he estimated outlays of $1.7 billion in FY 1980 and $0.7 billion in FY 1981 for the subcategory of "international financial programs."
6. For FY 1982, budget stringency requires Eximbank to be selective and to meet only the most crucial foreign credit competition, with net outlays by Eximbank estimated to rise from $2.4 billion in FY 1981 to $2.7 billion in FY 1982 (Jimmy Carter, 1/15/81).
7. For FY 1983, the Administration proposes to continue the current policy of restraining growth of federal credit programs while enabling Eximbank to meet selected foreign competition (Ronald Reagan, 2/8/82).
8. For FY 1984, new direct loans of $3.8 billion are proposed, with the Administration seeking supplemental direct loan authorizations of up to $2.7 billion for FY 1984 if necessary to meet subsidized foreign officially-supported competition (Ronald Reagan, 1/31/83).
9. For FY 1985, new direct loan obligations of $3.8 billion for Eximbank are proposed (Ronald Reagan, 2/1/84).
10. For FY 1986, Eximbank's direct loan program is being eliminated, in part because of the significant progress in international agreements for export credit restraint. Eximbank will maintain its loan guarantee programs, which encourage US exports of goods and services, supplemented by a new interest rate subsidy program (Ronald Reagan, 2/4/85).
11. For FY 1987, Eximbank's direct loan program is proposed to be eliminated while maintaining the loan guarantee program, supplemented by a new interest rate subsidy program. A new fair export financing program is proposed to counteract unfair competition by foreign competitors, with the proposed FY 1987 budget authority of $300 million to be disbursed over several years (Ronald Reagan, 2/5/86).
12. For FY 1988, new lending by Eximbank will remain roughly at FY 1987 levels. A special $0.2 billion in budget authority is sought in FY 1988 to continue a program begun in FY 1987 that offsets highly concessional export credits offered by some other governments. By demonstrating that the US will not be underbid, this program aims to force international negotiations to end such predatory financing policies (Ronald Reagan, 1/5/87).
13. For FY 1989, new lending of Eximbank will remain roughly at 1988 levels. The direct loan program offers loans generally below market rates, consistent with an international agreement that reduces, but does not completely eliminate, interest export subsidies (Ronald Reagan, 2/18/88).
14. For FY 1990, Eximbank is not explicitly mentioned under "International Finance Programs" in Ronald Reagan's message of 1/9/89. But the Budget Appendix clearly projects termination of the direct loan program, while retaining a $100 million "war chest" grant program to ensure implementation of the Tied Aid Credit Agreement.

Source: *The United States Budget in Brief*, Executive Office of the President (various years), as edited for clarity in some cases.

APPENDIX C

Eximbank Definitions of "Extraordinary" Official Support

1. *Tied aid or "mixed credits"*: Use of foreign aid funds along or combined with official export credits to produce concessional financing packages for importers.
2. *Foreign content support*: Credit or guarantee support for value added in by a third country but included in total price quoted by exporter to importer.
3. *Foreign currency loans or guarantees*: Support for an exporter funding in foreign currencies to make transaction more attractive to importer.
4. *Local cost support*: Credit or guarantee support for costs associated with an export transaction that are incurred in importer's country.
5. *Exchange risk insurance*: Exporter coverage against losses when the invoicing currency depreciates vis-á-vis the exporter's currency.
6. *Inflation risk insurance*: Exporter protection against losses suffered because of domestic cost increases incurred during a lengthy foreign project or domestic equipment manufacturing process.

Source: Eximbank Report of Competitiveness (June 1989).

NOTES

1. Senator Heinz remains one of the strongest proponents of higher Eximbank authorizations and of an aggressive stance toward foreign competitors.
2. The first of these Competitiveness Reports was issued July 1978 to cover the period 10/1/77-3/31/78. These became annual reports beginning in FY 1981. The latest (1988) was issued in June 1989.
3. The latest is Export-Import Bank Amendments of October 15, 1986 (Public Law 99-472).
4. Eximbank traditionally defines political risks as that risk of default due to 1) cancellation of import or export license; 2) war or other hostilities in the buyer's country after shipment and on/before due date; 3) expropriation; 4) confiscation of or intervention in the buyer's business; or 5) failure of the appropriate government authority to transfer or allow transfer of a buyer's qualifying local currency deposit into US dollars ("transfer risk"). Commercial risks are any risk of default not defined as a political risk. Note then that the Latin American official debt problems of 1982-1989 generally have carried both political and commercial risks for US exporters under Eximbank programs.
5. *Report to the US Government on Tied Aid Credit Practices*, Export-Import Bank, April 1989; *Report on US Government Involvement in Export Credit Insurance*, Export-Import Bank and US Office of Management and Budget, September 1987; *Export Credit Insurance: Assessment of Export-Import Bank's Role*, US General Accounting Office, September 1987; *Emerging Issues in Export Competition: A Case Study of the Brazilian Market*, US General Accounting Office, September 26, 1985.
6. *US International Economic Policy in an Interdependent World*, July 1971, pp. 122ff.
7. *NAM Export Credit Survey Report*, December 28, 1977. This survey and subsequent ones by NAM form the basis of regular testimony by that institution before Congress on export finance support. NAM's "International Economic Report" newsletter for members also analyzes the annual Eximbank budget in critical detail.
8. "Survey of Selected Member Companies Concerning Export Financing," MAPI. March 1982.
9. Alfred C. Holden, *Problems and Prospects for US Exports to Western Europe*, World Trade Institute, 1984.
10. The latest (third edition) is: *The Export Credit Financing Systems in OECD Member Countries*, 1987.
11. See this well-documented, semi-annual, joint OECD-BIS publication, *Statistics on External Indebtedness: Bank and Trade-Related Non-Bank External Claims on Individual Borrowing Countries and Territories.*
12. Edward H. Brau and Chanpen Puckahtikom, *Export Credit Cover Policies and Payments Difficulties*, August 1985; Edward H. Brau, *et. al., Export Credits: Developments and Prospects*, July 1986; K. Burke Dillon, *et al., Officially Supported Export Credits: Developments and Prospects*, February 1988.
13. Among recent sources describing developments and inadequacies in the private market are: "The Exporter's Guide to Private Insurance," a special section in *Trade Finance*, June 1988, No. 62; "Export Finance," a special supplement in *Financial Times*, April 20, 1988 and June 1, 1989; and "Private Political Risk Insurance," a special feature in *Swaps: The Newsletter of New Financial Instruments*, June 1988, Vol. 2, No. 6.
14. Daniel F. Kohler and P. Reuter, *The Gentlemen's Agreement: Honor Among Nations*, October 1986. See also Donald P. Henry, *The Financial Cost of Export Credit Guarantee Programs*, June 1987.
15. "Eximbank Lending: A Federal Program That Costs Too Much" by John H. Boyd, Senior Economist, Federal Reserve Bank of Minneapolis (reprinted from a publication of that bank). But none of these analytical studies received as much attention from angry Eximbank users as did the *Fortune* article of August 25, 1980, by Professor Steven E. Plant of Oberlin, entitled "Export-Import Follies." Plant's solution was essentially that proposed by OMB in 1981 (see Note 19).
16. It is significant how little attention is devoted to Eximbank and its capacity for export promotion in such official statements as the *Annual Report of the Council of Economic Advisors*, various issues of the *International Economic Report of the President*, the *Report of the President on US Competitiveness* of September 1980, or the annual Budget Message (see Appendix B).
17. In the 1986 Competitiveness Report, John Bohn (Eximbank President and Chairman) first elaborated upon this contradiction between a) export-finance support systems of Europe/Japan, built on "entitlement" principles and b) the inevitably weaker system that Eximbank manages, built on traditional US principles of exporter "needs."
18. One of the best guidelines describing how exporters integrate Eximbank offerings into competitive financial packages is in Alfred E. Darboch, *Financing Exports with the Support of the United States Government*, Bankers Trust Company, n.d.
19. The political forces in that struggle are well described in "Proposed Eximbank Cuts Dampen Business's Enthusiasm for Reagan," *National Journal*, January 30, 1982, pp. 198-200.
20. This "OECD" limitation is hardly academic in a world where several newly industrializing countries (NICs) are capable of both supplying competitive machinery and equipment and offering attractive financial packages to foreign buyers. For example, on April 11, 1989, Eximbank announced it had authorized a 6.5%, $17 million loan to Babcock & Wilcox to enable that company to participate in a paper mill expansion project in *Louisiana!* This action followed an Eximbank determination that the Gotaverken joint venture was about to win a key contract to install a heat recovery boiler at Gaylord Container Corporation's paper mill in Bogalusa because the Brazilian government was offering "non-competitive" 6.5% financing.
21. Competitiveness report surveys consistently rank "availability of cover" and "government policy restrictions" as among the most important criteria for export-finance support. Eximbank has never scored close to the "highly competitive" countries in either category.
22. Since 1983, Eximbank has been required to give special attention to small business in programs and authorizations. A major test marketing effort in that direction is summarized in "Final Report: Export-Import Bank of the United States 1988 State/City Pilot Projects Initiative" of March 21, 1989.
23. "Eximbank: Where Are We?" Remarks of William F. Ryan to Eximbank Annual Conference for Exporters and Commercial Bankers, Washington.
24. "Arrangement on Guidelines for Officially Supported Export Credits: Text of the Arrangement," June 1988.
25. This was one of the findings documented in *Problems and Prospects for US Exports to Western Europe*, op. cit.
26. This subject requires considerable further research. An interesting preliminary assessment of the causes for less interest in export finance is given by William F. Kolarik in "Financing American Exports: The Diminishing Role of US Commercial Banks," in *Trade Finance*, US Department of Commerce, 1988.

EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D.C. 20571

PRESIDENT
AND
CHAIRMAN

CABLE ADDRESS "EXIMBANK"
TELEX 89-461

January 25, 1994

Dear Chairman Frank,

I am responding for the hearing record to several questions that Congresswoman Waters and you asked during the hearing held on November 3, 1993 by the Subcommittee on International Development, Finance, Trade and Monetary Policy. The first question concerns Eximbank's exposure and activity in Africa. We also were asked about Eximbank's support for African-American businesses. Finally, you wanted to know more about the one-stop shops recommended by the Trade Promotion Coordinating Committee (TPCC). I apologize for any delay in our response; we wanted to make sure that we had complete data for Fiscal Year 1993 activity.

Eximbank Activity in Africa

Eximbank provided support for $807.4 million in U.S. exports to Africa in Fiscal Year 1993. This support consisted of $688.4 million in loan and guarantee authorizations for 33 medium and long term transactions for seven countries and an additional $23.8 million in posted shipments to 24 African countries and an additional $23.8 million in posted shipments to 24 African countries covered under Eximbank's short term credit insurance. During Fiscal Year 1992, Eximbank supported $1.3 billion in U.S. exports to the region. This support consisted of $1.3 billion in medium and long term authorizations for 94 transactions going to six African countries and an additional $13.8 million in posted shipments under short term credit insurance going to 16 African countries. Eximbank support to Africa represented approximately five and one/half percent of Eximbank authorizations in FY'93 and twelve percent of total authorizations in FY'92.

The reduced level of Eximbank support for U.S. exports to Africa is a function of the economic conditions in many African countries, decreased demand for Eximbank services, and arrearages to Eximbank.

Many African countries have experienced increasingly difficult debt service problems due, in part, to the fall in the prices of the primary commodities they produce. Other African countries have been burdened by drought, flooding and other climatic difficulties;

war, civil unrest, widespread corruption and poor economic management. The International Monetary Fund indicates that the value of Africa's exports and imports have been falling. In 1993, the value in U.S. dollars of Africa's exports fell by 4.5 percent while the U.S. dollar value of their imports fell by 2.4 percent.

The statistics for Eximbank support for exports to Africa become even more sobering when the figures for the countries of North Africa -- Algeria, Morocco, Tunisia, Egypt plus Libya (no exposure), are separated from those of Sub-Saharan Africa. With the North Africa deletions, Eximbank supported $272.2 million for Sub-Saharan Africa in 1993. The 1993 figures are based on $232.3 million in medium and long term transactions for nine countries plus and additional $9.8 million in short term credit insurance. FY'92 recorded $230.7 million in assisted exports, $222.9 million in authorizations (19 countries) and an additional $7.9 million in credit insurance.

Eximbank by statute cannot support U.S. exporters in cases where reasonable assurance of repayment does not exist. An interagency process chaired by OMB assesses the creditworthiness of every country in the world to whom the U.S. Government potentially could extend credit. I have enclosed for the record two papers that explain the Interagency Country Risk Assessment System.

Unfortunately, for many Sub-Saharan governments, we are unable to find a reasonable assurance of repayment. The arrears picture is visible evidence of the situation. The Government of Nigeria is $162.3 million in arrears to Eximbank; the Government of Zaire $600 million; the Government of Cameroon $5 million; the Government of Zambia $28 million; the Government of Gabon $16 million; the Government of Kenya $11 million; the Government of Madagascar $13 million; and the Government of the Sudan $35 million.

Eximbank continues to promote availability of its services to U.S. exporters and African importers interested in U.S. goods through a variety of briefings, seminars and other outreach programs. For the last eight years, Eximbank staff have attended the annual Africa Trade and Investment Program sponsored by the U.S. Departments of State and Commerce. A special three day training program for African bankers and government officials was sponsored by Eximbank in 1988. Eximbank staff routinely participate in forums with African officials and businesspeople in the United States and abroad. A recent presentation occurred with a group of 30 African officials and entrepreneurs sponsored for U.S. business training by Rev. Leon Sullivan. Eximbank staff participated in a recent special three hour briefing program for mid-level Egyptian Government officials sponsored by the Port of Baltimore.

Eximbank Support for African-American and Other Minority Owned Businesses

During the hearing you asked me to identify African-American business owners who are involved with Eximbank. U.S. exporters qualify for Eximbank loan, guarantee and insurance programs in cases where reasonable assurance of repayment and creditworthiness exist. Applications for Eximbank programs require information which pertain solely to the criteria of reasonable assurance of repayment and creditworthiness. Eximbank does not collect or reposit the data required to conduct a quantitative or systematic analysis of minority owned business activity. The majority of Exim applications are received and processed without a personal meeting between the exporter and an Exim loan officer.

I am, however, able to identify a few African-American business owners who are involved with the Export-Import Bank. The following people have been identified through personal contact with members of the Eximbank Board of Directors and staff. They include Mr. Malcolm Pryor of McClendon, Counts & Co., Inc. in Philadelphia, Pa.; Mr. Frank Savage, Chairman, of Alliance Corporate Finance Group in New York; Mr. Tom Farrington, President of Input-Output Computer Systems in Waltham, Massachusetts; and, Mr. Rex Poku of Rex Poku d/b/a/ Rexel Wausa in Plano, Texas.

The absence of data should not leave the impression that the minority business community is not receiving support or attention. Business outreach and marketing to the U.S. export community are vital, ongoing functions for Eximbank which are performed by all levels of Bank management. Members of the Eximbank Board of Directors and staff routinely speak at export conferences sponsored by business organizations throughout the United States. I am enclosing a copy of "The Export-Import Bank 1993 Schedule of Speaking Engagements" for your review.

Eximbank staff participate in export conferences sponsored solely for minority business groups. For example, Eximbank Marketing Officers spoke at minority business conferences in 1993 at Morgan State University during World Trade Week, and to a second group during Minority Enterprise Development Week. An Eximbank Marketing Officer spoke to the Congressional Black Caucus Conference.

In general, our experience indicates that minority owned businesses more frequently attend small business -- rather than minority owned business -- export conferences. The Eximbank regional offices, located in Chicago, Houston, Los Angeles, and Miami, provide ongoing, outreach activities to local businesses and business organizations. (Please refer to the "U.S. Export Assistance Center" section for an update on the Eximbank regional offices.)

The Eximbank West Coast Office makes a presentation each month during the U.S. Department of Commerce Trade Seminar which has an audience 50% to 75% of which are minorities. During FY'93, the Eximbank West Coast Office also participated in presentations and conferences which were either sponsored or co-sponsored by minority business organizations, such as the Sacramento Hispanic Chamber of Commerce or the "Africa 1990s Conference".

The Eximbank Southeast office also actively markets Eximbank programs to local business groups, such as the Latin American Chamber of Commerce and participates with DOC and SBA in monthly trade seminars which draw minority owned businesses. The Southeast office staff guesstimate that in October, 1993, of 73 calls on exporters and potential exporters, 27 were to Hispanic owned businesses, 3 were to African-American owned businesses, and 5 were to other minority owned businesses including women and Jamaican Chinese Americans. These calculations are a guesstimate because Eximbank does not collect or reposit demographics.

The Eximbank Midwest Office made presentations to the African Chamber of Commerce, Women in International Trade and Women Going Global during the last twelve months. This office approximates that twenty to twenty-five percent of their total business development contacts are with minority owned businesses.

The Eximbank Southwestern office has many brokers and policyholders who are Hispanic Americans as well as a few who are African-American, Asian, and American-Indian.

The Eximbank Northeastern office spoke to the following groups during the last year: N.J. Division of International Trade Seminar on Doing Business in Ghana and Africa; Chinatown NYC Business Association; South Bronx Development Association; Williamsburgh Brooklyn International Business Forum; N.J. International Business Women's Forum.

I am certain that we have not reached as many businesses as we could. We welcome any suggestions.

The TPCC and U.S. Export Assistance Centers

Since I became President and Chairman of the Export-Import Bank, I have worked diligently, along with my counterparts from 19 different agencies, as a member of the Trade Promotion Coordinating Committee (TPCC) to formulate a sound national export strategy. The TPCC has produced a set of actions and recommendations that, if properly implemented, will give a great boost to the ability of large and small American companies to compete in the global marketplace. The recommendations were based in large part on discussions with over 1,500 private sector and state government representatives, including numerous small and minority-owned businesses. A copy of the TPCC Report is enclosed.

The TPCC recognizes the export needs of large corporations as different from those of small businesses and made recommendations to meet the needs of each group. Small businesses have a greater need for counseling and information about opportunities in overseas markets. In addition, they have a more difficult time accessing government programs.

One of the major steps for improving support to small businesses is the opening of U.S. Export Assistance Centers, or one-stop shops, in major U.S. cities throughout the country. The goal is to make the U.S. Government act like a trading company in support of small businesses and, in the process, create an export mentality throughout the nation.

The TPCC recommended the creation of U.S. Export Assistance Centers so exporters can receive all needed assistance from one location. These export resource and assistance centers will provide all federal export promotion and trade finance programs, including resources and staff from Eximbank, the Department of Commerce and the SBA. The U.S. Export Assistance Centers will also integrate federal services with other local, state, and private sector providers.

I am pleased to report that as of January 31, 1994 the U.S. Export Assistance Centers in Baltimore, Chicago, Miami and Long Beach will be operational.

Eximbank is cooperating with the TPCC to insure the success of the U.S. Export Assistance Centers while continuing to operate some of the Eximbank Regional Offices. For the U.S. Export Assistance Center in Baltimore, Washington-based Exim staff will travel to Baltimore on an as-needed basis. In Chicago and Miami, Eximbank will co-locate offices with the Department of Commerce and SBA. In Los Angeles, staff from the Eximbank Western Regional Office in El Segundo will be available on a rotating basis in the U.S. Export Assistance Center in the Long Beach World Trade Center. The Eximbank Northeastern and Southwestern Regional Offices will continue to operate.

I hope this letter provides the information you requested. I want to emphasize that by highlighting what we have done does not mean that we think that we have done enough. We would welcome working with you to improve our support for exports to Africa and for minority-owned businesses.

Sincerely,

Ken Brody

Kenneth D. Brody

The Honorable Barney Frank
Chairman
Subcommittee on International Development,
Finance, Trade and Monetary Policy
Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives
Washington, D.C. 20515-6050

Enclosures - "The Export-Import Bank 1993 Schedule of Speaking Engagements"
"Toward A National Export Strategy", Report to the United States Congress, Trade Promotion Coordinating Committee, September 30, 1993.
"Interagency Country Risk Assessment System"
"From Ordinal to Cardinal Measures of Country Risk"

EXPORT-IMPORT BANK OF THE UNITED STATES
1993 SCHEDULE OF SPEAKING ENGAGEMENTS

DATE	LOCATION	EVENT	SPEAKER
1/27/93	New York, NY	"Trade Financing: Understanding the Complexities", NYU	Cummings NY Office
1/28/93	Washington, DC	American-Turkish Friendship Council	Harriman Director
2/2/93	New York, NY	Financial Executives Institute's Treasurers Conference	Rodriguez Director
2/3/93	Hartford, CT	World Affairs Council	C. Thompson Director
2/10/93	Washington, DC	Power Projects Seminar	Albright Int. Lending
2/11/93	Washington, D.C.	Association of Women in International Trade	Lentz Eur./Can.
2/15-17/93	Hong Kong	"Trade and the Environment in Pacific Rim Nations," American and Inter-Pacific Bar Associations	Harriman Director
2/17-18/93	Oakland, CA	Africa 1990s Conference	Sanders/ Toll (L.A.)
2/18/93	Atlanta, GA	Valve Industry Leadership Forum	Bond Coun. Risk
2/22/93	Miami, FL	Florida International Bankers Association Conference	Rodriguez Director
3/3/93	Arlington, VA	ARI International Committee Meeting	Grace Marketing
3/4/93	New York, NY	Trade and Export Finance Conference, American Conference Institute	M. Solomon Gen. Coun.
3/10/93	Arlington, VA	ISEA International Trade Forum	DiStefano Marketing

3/10-11/93	Bridgeport/ Hartford, CT	Shawmut Bank	Roy U.S. Div.
3/12/93	Miami, FL	CAMACOL (Latin Chamber of Commerce of the United States) Conference	Rodriguez Director
3/16-18/93	Houston, TX	Independent Bankers Association	Lomax, Warner, M. Davis
3/19/93	Houston, TX	Interamerican Chamber of Commerce	Rodriguez Director
3/29/93	Arlington, VA	Senior Seminar, Foreign Service Institute	Albright Int. Lending
4/2/93	Washington, DC	Washington Export Council Luncheon	Rodriguez Director
4/2/93	Washington, DC	US-FSU Energy Institute Joint Conference	Moran Eur./Can.
4/20/93	Washington, DC	US-Slovenia Trade Seminar	Fleig Eur./Can.
4/20/93	Miami, FL	Eastern Europe Conference	G. Solomon Marketing
4/21/93	Washington, DC	Women Going International Conference	Harriman Director
4/27/93	Washington, DC	International Law Institute Seminar	Newton Cont. Ad.
4/28-29/93	Sacramento, CA	North American Continental Market Conference	Harriman, Obester
4/30/93	Miami, FL	CAMACOL Hemispheric Congress	Rodriguez Director
4/30-5/5/93	Minneapolis, MN Chicago, IL Cleveland, OH	U.S. Ambassador's Tour	Fleig Eur./Can.
5/5/93	Houston, TX	Caterpillar Offshore Technology Conference	Moran Eur./Can.
5/10/93	Phoenix, AZ	World Trade Center Arizona, Trade Finance Seminar	Harriman Director

5/10/93	Niagara Falls, Ontario	World-Wide Credit Manager Conference	Kendall Engineering
5/10/93	Gaithersburg, MD	National Institute of Standards and Technology (FMS)	DiStefano Marketing
5/12/93	Miami, FL	Bolivia Seminar	Pilzer Latin Am.
5/14/93	Washington, DC	"World Trade and You" DC Convention Center	Brown Africa/M.E.
5/17/93	Boca Raton, FL	Bankers' Association for Foreign Trade Annual Meeting	Brody, Albright
5/17/93	New York, NY	Energy Forum, City University of New York	C. Thompson Director
5/19/93	Baltimore, MD	International Trade Show, Towson State University	Lomax Marketing
5/20/93	Washington, DC	Institute of International Finance, Trade and Project Finance Conference	Albright Int. Lending
5/20/93	Detroit, MI	Greater Detroit World Trade Week	Grace Marketing
5/21/93	New Orleans, LA	International Trade Conference of the Americas	Kaiser Marketing
5/26/93	New York, NY	Trade Finance, New York Port Authority	Papes Marketing
5/27/93	Washington, DC	Environmental Business Opportunities and Liabilities in Central and Eastern Europe	Fleig Eur./Can.
5/27/93	Cedar Rapids, IA	"Leadership and Change: The Challenge of Development" - US AID	Brown Africa/M.E.
6/4/93	Grand Forks, ND	International Trade Trade Conference AIM '93	Papes Marketing
6/8/93	Troy, MI	Metropolitan International Business	Grace Marketing

		Development Center	
6/9/93	San Diego, CA	RETSIE '93 Conference	Harriman Director
6/11/93	Washington, DC	"The Impact of the Clinton Administration and the New Congress on International Trade and Finance," GWU	Brody Chairman
6/11/93	Ft. Lauderdale, FL	Florida Governor's Conference	G. Solomon Marketing
6/14/93	Hartford, CT	Gas Turbines: Connecticut's Engine for Growth	Wisniewski Engineering
6/15/93	London, England	Structured Trade and Project Finance Conference	Rodriguez Director
6/16/93	Washington, DC	Women Going International Conference	Harriman Director
6/16/93	Alexandria, VA	General Tire International Management Conference	DiStefano Marketing
6/25/93	Atlanta, GA	Southern Forest Association EXPO	G. Solomon Marketing
6/25/93	Washington, DC	Trade and Investment Opportunities in Africa Conference	Donegan Africa/M.E.
6/28/93	Washington, DC	Senior Foreign Service Leadership Course	Albright Int. Lending
6/28/93	Houston, TX	Privatization of Energy Industry in Latin America Panel	Pilzer Latin Am.
7/9/93	Margarita Island, Venezuela	Latin American Telecommunications Summit	Kuge Latin Am.
7/13-15/93	Buffalo, NY	Export Expo '93	G. Solomon Marketing
7/22/93	Washington, DC	Trade and Investment Projects in Africa	Brown Africa/M.E.

7/26-29/93	Milwaukee, WI	Milwaukee World Trade Association	Grace Marketing
8/12/93	Washington, DC	Argentine Trade Development Delegation	Pilzer Latin Am.
8/16/93	Charlotte, NC	SBA Seminar	Grace Marketing
8/17/93	Annapolis, MD	FAA International Representatives Meeting	Kaiser Marketing
8/31/93	Midway, UT	Utah Information Technologies Association Fall Conference	Chadwick U.S. Div.
9/16/93	Arlington, VA	AFCOM '93	Brown Africa/M.E.
9/17/93	Appleton, WI	Annual Export Conference (sponsored by Toby Roth)	Kaiser Marketing
9/17/93	Washington, DC	Congressional Black Caucus Legislative Weekend	Papes Marketing
9/20/93	Washington, DC	DOE - Electric Power Mission	D. Thompson Asia
9/21/93	New York, NY	Coltec Credit Management Meeting	DiStefano Marketing
9/21-23/93	Monterrey, Mexico	EnviroMex '93 Exhibition and Conference	Wisniewski Engineering
9/22/93	Tarrytown, NY	International Trade Finance Conference	DiStefano Marketing
9/23/93	Boston, MA	New England Council	Brody Chairman
9/23-24/93	Burlington, VT	Chittenden Bank Seminar	DiStefano Marketing
9/25/93	Washington, DC	World Economic Development Congress	Brody Chairman
9/29/93	Washington, DC	WILIG Breakfast	Lee

			Gen. Counsel
10/4/93	Columbus, OH	Ohio International Trade Conference	Roy U.S. Div.
10/4/93	New York, NY	Practicum on International Business and Banking, Columbia University	K. O'Connor Marketing
10/4-5/93	Orono, ME	Governor's Economic Development Conference	DiStefano Marketing
10/5/93	Boston, MA	Asia-Pacific Region Business & Investment Conference	D. Thompson Asia
10/7/93	Newark, NJ	SBA Export Matchmaker '93 Trade Fair and Conference	DiStefano Marketing
10/8/93	Washington, DC	Air Pollution Control Equipment Conference	Wisniewski Engineering
10/8-10/93	Miami, FL	Council of the Americas Conference	Rodriguez Director
10/9/93	New Haven, CT	"Trade, Competitiveness and the U.S. Economy," Yale Law School Reunion	Lee Gen. Counsel
10/13-14/93	Orlando, FL	Aerospace Industries Association Conference	Brody Chairman
10/13/93	Tampa, FL	Global Marketing Conference	G. Solomon Marketing
10/14/93	Phoenix, AZ	World Advisory Council American Graduate School of International Management (Thunderbird)	C. Thompson Director
10/15/93	Atlanta, GA	International Trade Conference	Rodriguez Director
10/20/93	Washington, DC	National Foreign Policy Conference	Brody
10/20-21/93	Buenos Aires, Argentina	International Finance for Small and Medium-Sized Enterprises Conference	Rodriguez Director

10/21/93	Dallas, TX	NACM	Schneider SW Regional
10/22/93	St. Louis, MO	Export Finance Bankers' Conference	K. O'Connor Marketing
10/25/93	Cambridge, MA	Energy Conference, Former Soviet Union, Harvard University	C. Thompson Director
10/27/93	Caracas, Venezuela	Camara Venezolana de la Construccion 50th Anniversary Conference	Rodriguez Director
11/3-4/93	Buffalo, NY	Commercial Bankers Seminar	G. Solomon Marketing
11/4/93	Washington, DC	"International Private Infrastructure Opportunities" Conference	Albright Int. Lending
11/4/93	Dallas, TX	Global Trade Series	Schneider SW Regional
11/8/93	Washington, DC	NASDA Environmental Business Mission	Grace Marketing
11/9/93	St. Louis, MO	SBA Seminar	O'Connor Marketing
11/15/93	Washington, DC	Airfinance Legal Conference	M. Solomon Gen. Coun.
11/15/93	Chicago, IL	BAFT Conference on Trade Finance	Albright Int. Lending
11/17/93	Boston, MA	Building Globally Conference	DiStefano Marketing
11/22/93	Cambridge, MA	Trade Finance and the Developing World, Harvard University	Brody
11/30/93	New York, NY	Institute for Infrastructure Finance Conference	Rodriguez Director
11/30/93	Washington, DC	Go Global International Business Symposium	Wisniewski
11/30-12/3/93	Moscow, Russia	Oil and Gas Framework Conference	Brody, Lee, Glazer,

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			Reed, Moran, Lentz, Newton, R. Brown
12/2/93	Washington, DC	Joint Venture and Direct Investment Opportunities in the New India Conference	Capets Asia
12/8/93	Miami, FL	Council for the Americas Conference	Rodriguez Director
2/16/94	Geneva, Switzerland	Geneva Aircraft Finance Conference	Albright Int. Lending
2/17/94	Geneva,	Geneva Forum	Albright Int. Lending

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